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ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but it can be adapted for special groups or vocational teacher education. The emphasis of the eight instructional units in Part III is operating a business. Unit D focuses on market management. It provides information on typical marketing problems of the small manufacturing business, service firm, wholesaling enterprise, and retailing business and offers suggestions for making the right marketing decisions. The marketing functions included are market research, product planning, pricing, selling on credit, purchasing, stockkeeping and inventory control, channels of distribution, and advertising and sales promotion. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including a postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography and listing of sources for further information are appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

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Research and Development Series No. 194 C-4

PACE

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART III: Being an Entrepreneur
UNIT D: Marketing Management

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

CE 028 164

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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PART III: BEING AN ENTREPRENEUR

UNIT D: MARKETING MANAGEMENT

TABLE OF CONTENTS

Page

FOREWORD v

HOW TO USE PACE vii

OVERVIEW OF THE UNIT ix

DEFINITIONS TO KNOW BEFORE YOU BEGIN xi

PACE PATH OF STUDY xiii

LEVEL I: EXPOSURE

PREASSESSMENT 1

TEACHING/LEARNING OBJECTIVES 2

SUBSTANTIVE INFORMATION 3

Marketing 3
Market Research 6
Product Planning 7
Pricing 9
Credit 11
Purchasing 12
Inventory Control 14
Distribution 15
Promotion 17
Business Trends 18

ACTIVITIES 20

Assessment One 20
Assessment Two 21
Postassessment 22

SELF-EVALUATION 22

LEVEL II: EXPLORATION

PREASSESSMENT 23

Page

TEACHING/LEARNING OBJECTIVES 24

SUBSTANTIVE INFORMATION 25

Importance of Marketing 25
Market Research Function 35
Product Planning Function 38
Pricing Function 40
Credit Function 42
Purchasing Function 46
Inventory Management Function 51
Distribution 54
Promotion Function 59
Advertising Function 63

ACTIVITIES 68

Assessment One 68
Assessment Two 69
Postassessment 71

SELF-EVALUATION 73

LEVEL III: PREPARATION/ADAPTATION

PREASSESSMENT 75

TEACHING/LEARNING OBJECTIVES 76

SUBSTANTIVE INFORMATION 77

The Marketing Concept 77
Market Research Function 79
Product Planning Function 82
Pricing Function 85
Credit Function 88
Purchasing Function 93
Inventory Control Function 96
Distribution Function 100
Promotion Function 104

ACTIVITIES 110

Assessment One 110
Assessment Two 113
Postassessment 114

SELF-EVALUATION 115

BIBLIOGRAPHY 117

SOURCES TO CONSULT FOR FURTHER INFORMATION 119

FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

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HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for postsecondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a business), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do several or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

The intent of this unit is to introduce you to the marketing function by acquainting you with the typical marketing problems of the small manufacturing business, service firm, wholesaling enterprise and retailing business, and to offer suggestions that will assist you in making the right marketing decisions. In all types of businesses, marketing management means making decisions about products, distribution, promotion, prices, and sales.

The marketing functions included in this unit are 1) market research, 2) product planning, 3) pricing, 4) selling on credit, 5) purchasing, 6) stockkeeping and inventory control, 7) channels of distribution, and 8) advertising and sales promotion.

Marketing management is so important that you will undoubtedly want to study the field in greater depth as your business becomes a reality. This unit will give you the basic foundation you need to pursue further information, and it will direct you to some helpful sources for continued study.

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

marketing
promotion
diversification
consumer credit
inventory control
buyer's market
seller's market
middleperson
business credit
trade credit

EXPLORATION

marketing
consumer markets
target market
discretionary income
supply and demand
trade discount
cash discount
consumer credit
broker
premiums
pioneer advertising
middleperson
nonprice competition
industrial markets
producer markets
business credit
quantity discount
cumulative quantity discount
competitive advertising
commission
defensive advertising
channels of distribution

PREPARATION/ADAPTATION

marketing

target market

sampling

market segmentation

saturation

gross margin

markup

consumer credit

revolving credit

inventory control

channels of distribution

retail price

middleperson

perpetual inventory

seller's market

buyer's market

trade credit

short/long-term credit

physical inventory

PACE

PATH OF STUDY

PART I-- GETTING READY TO BECOME AN ENTREPRENEUR

Unit I A

Unit I B

Unit I C

PART II-- BECOMING AN ENTREPRENEUR

Unit II A

Unit II B

Unit II C

Unit II D

Unit II E

Unit II F

Unit II G

PART III -- BEING AN ENTREPRENEUR

Unit III A

Unit III B

Unit III C

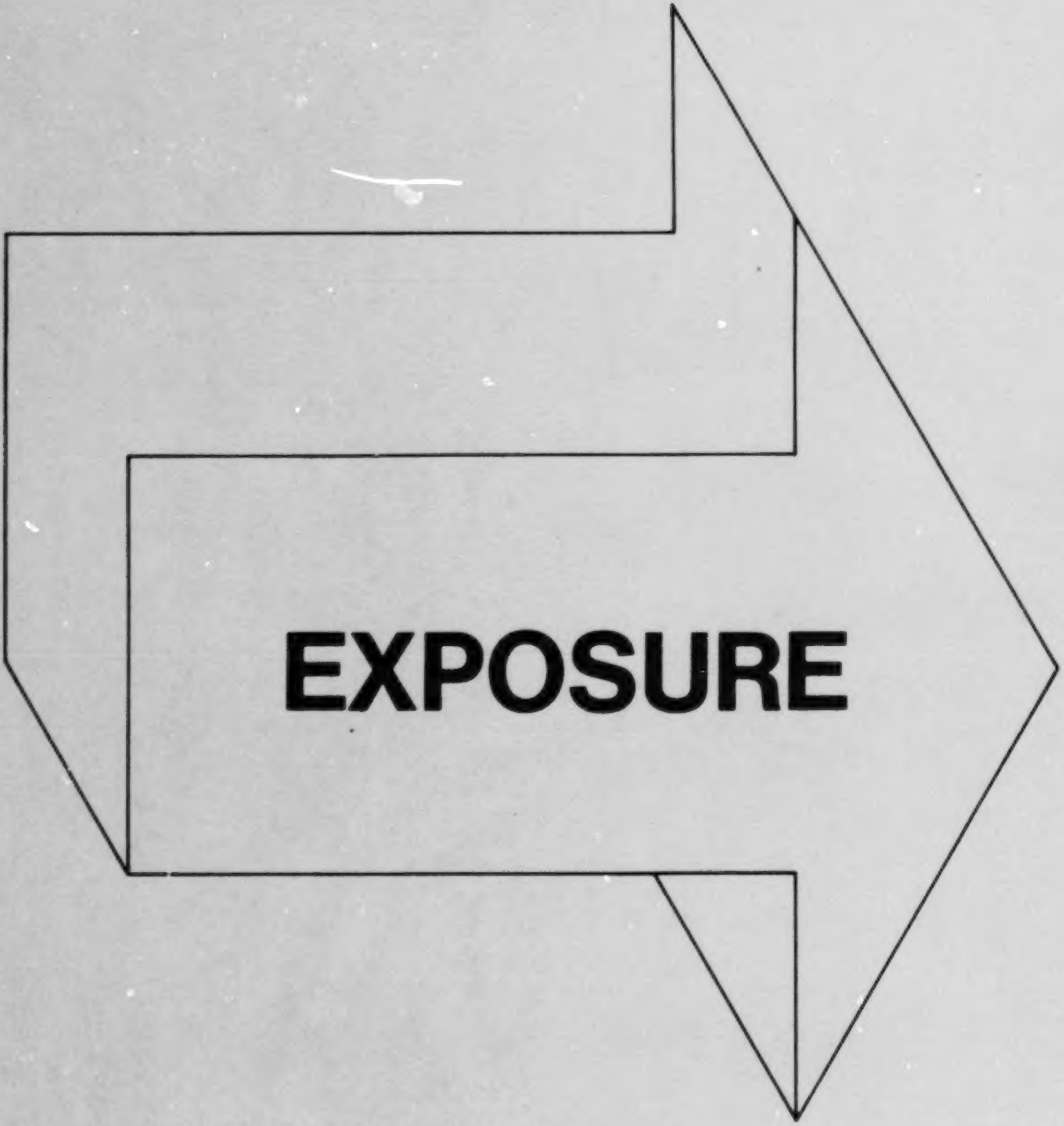
YOU ARE HERE ⇨ Unit III D -- Marketing Management

Unit III E

Unit III F

Unit III G

Unit III H



EXPOSURE

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. What is marketing and what is its importance?
2. What are three marketing functions?
3. "Marketing is a complex function because it involves so many activities and affects every part of a firm's operation." Do you agree or disagree with this statement? How important do you think the marketing function will be in your firm?
4. Define the term "business image". "The firm's image is vital for its success." Do you agree or disagree with this statement? Why? What type of image will you attempt to establish for your company?

14

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Define marketing and discuss its significance to small business.
2. Identify three marketing functions and discuss their importance to small business.
3. Describe these marketing functions from the viewpoint of small business:
    - a) Market research
    - b) Product planning
    - c) Pricing
    - d) Credit
    - e) Purchasing
    - f) Inventory control
    - g) Distribution
    - h) Sales promotion.
4. Define the term "Marketing Mix."
5. Discuss what is meant by product line diversification.

SUBSTANTIVE INFORMATION

MARKETING

WHAT IS MARKETING?

Marketing may mean different things to different people. Webster's Dictionary defines marketing as "the act or process of selling or purchasing in a market." Marketing is not limited to a specific place where merchandise is sold, such as a wholesale or a retail firm. According to the Committee on Definitions of the American Marketing Society, marketing includes "the performance of business activities that direct the flow of goods and services from producer to consumer or user."

Marketing is as old as humankind. In its simplest form, it began when one of our ancestors traded a product or service for another product or service. Whether a nation is rich or poor, technologically advanced or developing, the basic needs of its people must be satisfied. Marketing activities are important to any economy's growth. In general, when a nation attempts to satisfy the needs of the people, marketing activities are involved because the need for exchange exists.

Marketing is complex and pervasive. Businesses make marketing decisions by completing each step between raw materials and finished products. Consider the following example.

This morning Jane was awakened by an alarm clock made in Japan. The Japanese manufacturer used technology from Switzerland to develop the clock works and had the plastic casing molded in the United States. Jane purchased the clock a year ago when a special rebate offer was available.

Jane breakfasted on orange juice made from concentrate, milk, and dry cereal. The concentrate was made with Florida oranges, shipped by rail to a central packaging plant, transferred to a wholesaler in Jane's area, then distributed by truck to the retailer from where Jane purchased it. The cereal was made from wheat grown in Kansas and Illinois, processed in Michigan, and then transported to the local retailing outlet where Jane purchased it. Television advertising had made Jane familiar with the brand of cereal and juice she bought. Jane's milk came from a farm ten miles away.

Overnight, Jane stored her orange juice and milk in a refrigerator made mostly of iron. The iron ore was mined in Venezuela, smelted with coal and coke from Appalachia, and then shipped to the stamping plant of the manufacturer. The manufacturer assembled the unit with motors from Ohio; paint from New York; light bulbs from Massachusetts; and aluminum, rubber, copper, plastics, and other materials from sources around the world. Because the refrigerator's manufacturer made attractive sales arrangements with Jane's local appliance store, the store's sales force was interested in selling Jane that brand of refrigerator when she came in to buy. A variety of marketing decisions, made in many different parts of the world, affected Jane's morning routine.

Marketing Activities

WHAT IS THE "MARKETING MIX?"

Two sets of forces make marketing an ever-changing activity. One set is the constantly changing societal and economic forces over which marketing has no control. The second set of forces includes pricing, research, and promotional activities. These can be controlled by individual firms but they require continual adjustments.

All firms perform marketing activities. They make marketing decisions regarding 1) the price of products/services, 2) promotion of products/services, and 3) how to get products/services to market. These decision factors comprise the "marketing mix." The goal of marketing management is to develop the "right" marketing mix--the combination of marketing factors that will meet specific needs and generate profits. Successful businesses have learned how to "mix" all the marketing functions so they are compatible and work together to produce profits. Developing an effective marketing mix takes skill and practice.

Marketing activity includes performing various functions. These functions include purchasing for the business, stock keeping and inventory control, pricing, research and planning, selecting channels of distribution, selling on credit, advertising, sales promotion, and product planning. As an entrepreneur, you need to become familiar with these marketing functions.

MARKET RESEARCH

WHAT DOES MARKET RESEARCH INCLUDE?

Market research is gathering and evaluating information about buying and selling goods and services. Market research activities are primarily involved with finding the facts in three areas: consumers, competition, and internal operations. Market research and planning is important to both large and small firms.

Because of limited financial resources and expertise, some small business owners rely on their own intuition rather than market research techniques in attempting to satisfy their customers. Better products and services are offered because the owner "thinks" the customer will like them. Any market research activity used should be a planned search for information.

However, even though most small businesses do not have the capacity to conduct sophisticated market research studies on consumer preferences and tastes, market research can be conducted by small firms with a minimum of expense and trouble. Getting to know your customers wants and needs may be the key. Because people make up markets and their needs and wants are subject to continuous change, marketing research needs to be done on various activities to determine if they are reflecting these "people" changes. For example, the small firm could display a suggestion box or send questionnaires to all credit customers. In deciding to produce a new product, the manufacturer could interview the target market customers for reactions to the proposed product. Testing consumer acceptance by distributing free samples is another method of market research. Various consumer research studies conducted in your industry and reported in trade and marketing journals can provide valuable information. Obtaining data on what the competition is doing in the marketplace provides a good opportunity to implement changes by using marketing research.

In sum, market research is essential if firms are to adapt to change; learning how to buy and sell products and services more effectively should be the goal of all firms. All market research should result in information which is useful in making the right marketing decisions.

PRODUCT PLANNING

WHAT DOES PRODUCT PLANNING INCLUDE?

Products and services have life cycles. When first introduced, they are accepted by only a few people, then they may gain in popularity and sales may grow rapidly. For most products and services, there is an eventual decline in sales. Because the business world is forever changing, the life cycle of products and services seem to be decreasing. Products and services don't "live" as long in the marketplace as they did in years past.

If products and services have life cycles, then for any business to survive and continue to be successful, entrepreneurs must review and closely examine the products and services the firm sells. It may be necessary to replace those products and services which are having declining sales with new and modified products. For example, Carl and Shirley Sontheimer are well aware of the need to develop and modify products to meet new customer needs.

> *What Carl and Shirley Sontheimer found in France was a restaurant food processor made by Robot-Coupe, France's largest make of restaurant kitchen equipment which is controlled by the big French insurance-investment company La Paternelle. Sontheimer took the processor back to Connecticut, tinkered with it for 18 months, modifying the blades and the shredding and slicing disks and increasing its safety.*
>
> *Sontheimer's machines are made in France to his specifications by Robot-Coupe. "It's a different machine," he says of his present product, "a better and more expensive machine. It will do things that the machine Robot-Coupe makes to sell in Europe will not do. If it had been imported by someone who was not a competent engineer, it would probably not have gotten off the ground because the stores would have had too much trouble with it."*
>
> *In the end, Sontheimer's Cuisinart food processor created a whole new segment of the kitchen appliance industry, a segment so promising and growing so explosively that a host of imitators rushed in with machines of their own, most of them at lower prices: Farberware ($89.99), American Electric ($60), Waring ($160), Hamilton Beach ($89.95), and even France's Moulinex ($89.95).*
>
> *The new competition could hardly fail to cut into Cuisinarts' market, some with good products, some with what Sontheimer dismisses as junk, but at the moment the demand is growing so rapidly and Sontheimer has been so busy meeting the demand he hasn't had to worry about competitors. "Our sales keep climing," he says. "Our marketing director says our competitors have given the public a basis for comparison."*
>
> (Forbes, March 6, 1978, p. 66) Reprinted by permission of Forbes Magazine from March 6, 1978 issue.

Product Lines

HOW IMPORTANT IS A FIRM'S PRODUCT LINE?

A firm's product line is the assortment of products or services the business sells. All businesses--manufacturing, retailing, service, and wholesaling--must continually make decisions regarding the products and services being sold.

Any decision to add new and improved products/services to the line must be carefully considered and based on the hard data. This includes data on availability of capital, appropriateness of facilities, and existing and potential competition. Any changes in a firm's product line should also be made in anticipation of increased profits and long-term growth of the firm.

Expanding a product line is called diversification. Service stations are good examples of firms that have experimented with diversification. Some of their product line diversifications such as car wash installations, auto repair shops, and trailer rental services are closely related to the service station business. Others, however, are quite different in nature from the normal operation of service stations: self-service laundries, grocery departments, restaurants, dry cleaning stations, car rental facilities, and tool rental service.

PRICING

ARE THERE FACTORS WHICH INFLUENCE THE PRICES SET?

When a price is established for a product or service, it usually should include the cost of the goods or services you sell, plus the overhead or administrative and selling expenses, plus the profit you want to make. In addition, other factors may affect prices. Among these are the market (who buys the product or service), actions of competitors, traditions in the trade, legislation, and existing economic conditions.

Determining the best price involves consideration of more than a single factor; there is no one correct formula. Some small firms are unaware of costs of doing business and hence do not establish prices that will return a large enough profit. True costs must be determined so prices can be set on goods that will keep the firm in business. The best price for a product may never be achieved. The following statement illustrates the arguments that pricing includes some elements of being an art rather than a science.

> *The best price for a product is not necessarily the price that will sell the most units, nor is it always the price that will bring in the greatest number of sales dollars. Rather, the best price is one that will minimize profits of the enterprise. The best selling price should be oriented to cost as well as customer. Costs tend to establish price ceilings. In general, prices should be high enough to attract customers and build sales volume.*
> From Small Business Management: Concepts and Techniques for Improving Decisions by Petrof, Carusone, and McDavid. Copyright (c) 1972, McGraw-Hill Company. Used with permission of McGraw-Hill Book Company.

Pricing is a complex function. In a few areas in our economy, prices are determined by forces over which the entrepreneur has no control. For example, some states set price floors on how little a seller may charge for certain products. This has been done largely to protect the small business owner from being run out of business by large firms. On the other hand, many farm prices are determined solely by factors of supply and demand.

Setting prices for products and services is a very important decision for businesses. In most cases, you, the owner will need to establish pricing policies and make decisions on the prices of the goods and services your firm sells. Therefore, it is very important that you fully understand the pricing function.

CREDIT

WHAT ARE THE TWO TYPES OF CREDIT?

The credit function is selling of goods and services subject to payment at a later time, with goods being delivered and services being provided immediately. There are two main types of credit. Business credit is made available by manufacturers and wholesalers to their customers--industrial buyers. Consumer credit is extended by retailers and services firms to the ultimate consumer.

There are two types of business credit--credit available to industrial purchasers (trade credit) and credit available through banks or lending institutions. Trade credit is an important source of short-term financing. Manufacturers and middlepersons offer their customers credit terms allowing them from as little as 10 days to more than 120 days to pay for their purchases. Banks and other lending institutions are usually the most important source of long-term credit for small businesses.

In some businesses, consumer credit--providing credit to customers--is essential to the success of the enterprise. For example, high percentages of retail sales of high-priced durable goods such as automobiles, major appliances, and furniture are made on the installment plan. Few consumers are both willing and able to pay cash for such items; installment credit has made it possible for many more consumers to purchase such merchandise.

Credit in itself is an important marketing strategy which affects all other marketing strategies. Credit must be considered when making any marketing decisions whether it be product planning, pricing, or selecting channels of distribution. For example, sales expansion, increasing sales volume, and expanding sales markets often lead to making high risk credit sales. The entrepreneur, anxious to seek new customers, may find himself or herself burdened with delinquent accounts or too many accounts receivable, and may not know how to handle the situation. This is both a financial problem and a marketing dilemma. Entrepreneurs need to be knowledgeable about extended credit and making collections from customers.

PURCHASING

WHAT DOES THE PURCHASING FUNCTION INCLUDE?

Purchasing is the process of buying the right quantity of the right quality of material, products and supplies, at the right price, at the right time, and from the right supplier. For the manufacturer, purchasing involves getting raw materials, parts, and factory and office supplies. For a wholesaler or retailer, purchasing refers to buying merchandise to be resold to customers. Service firms purchase goods and supplies necessary to conduct their businesses. Regardless of the type of business, the entrepreneur must purchase all the necessary supplies, equipment, and inventory used by the business.

Manufacturers must use effective purchasing practices to produce the right quality of the finished product. Retailers and wholesalers must also be concerned about the quality of the goods they purchase. It is said that goods well bought are half-sold.

Purchasing the right quantity of materials and goods is very important for any business. Manufacturers need to prevent costly interruptions in the manufacturing process; retailers, wholesalers, and service firms need to have the goods on hand when their customers want them.

All businesses need to purchase goods at the right price. Buying at the right price means that a business has the ability to compete on a cost basis. Taking purchase discounts, such as cash discounts, is part of getting goods at the right price.

Getting goods at the right time means minimizing loss of sales due to lack of goods for resale or for production purposes.

Selecting the supplier from whom to buy is another important purchasing function. Maintaining good supplier relations is very important. Unfortunately, the small buyer is often at the mercy of suppliers. Since small businesses do not normally purchase in large volume and have limited finances, they are not in the same bargaining poisition as the larger firm.

Successful purchasing requires the entrepreneur to have the ability to estimate consumer needs and desires weeks and even months in advance. The entrepreneur must make these purchases before selling or manufacturing of goods and services begins.

When ordering merchandise that will be delivered and placed on sale two or even three months later, the business owner is, in effect, trying to anticipate what consumers will do in the future--something the consumers may not be sure of themselves. Therefore, it is important for the entrepreneur to know customers' needs and buying habits to accurately predict their buying actions.

How effectively the purchasing task is performed will ultimately reflect in the firm's profits. Effective purchasing procedures contribute to the firm's success or failure.

INVENTORY CONTROL

WHAT DOES INVENTORY CONTROL INVOLVE?

Inventory control is another important marketing activity. Inventory consists of the products to be resold, raw materials, parts, shop and office supplies, machinery, and equipment used by the business. Inventory represents money spent to insure that needed items are available to maintain production or to meet the demands of your customers. Money invested in inventory reduces funds available for daily operations.

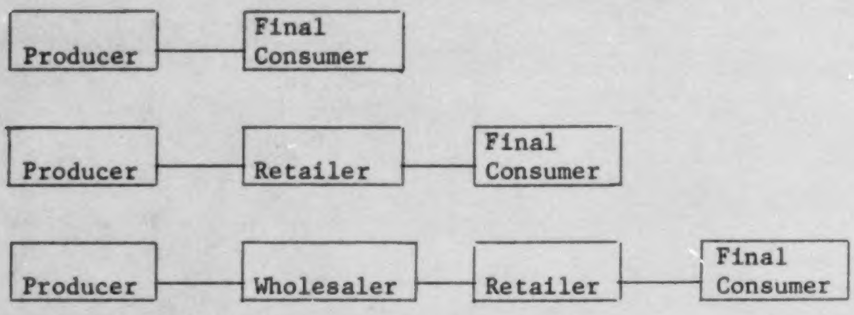
Both purchasing and inventory control have the same objective: to have the right goods in the right quantities at the right time and place. Inventory control should prevent an inventory of slow-moving merchandise or raw materials. If inventories are too large in relation to the demand, the cost of carrying the inventory will be higher than necessary. Many new business ventures fail or barely survive because they have too much money tied up in inventories. However, for retailers, too little inventory can disappoint customers and send them elsewhere. For the manufacturer, it can delay production schedules and delivery dates. Therefore, the aim of every business is to keep inventories balanced and to prevent loss of sales or production time by carrying an insufficient supply of goods. The small business must strive for the proper balance of inventories.

Because small businesses often have minimum capital, the importance of inventory control is even more significant. To make purchasing effective, accurate information about inventories is required.

DISTRIBUTION

WHAT IS A CHANNEL OF DISTRIBUTION?

A channel of distribution is defined as the route a product takes from the producer or manufacturer to the final customer. There are three basic channels of distribution. They are Producer to Final Consumer, Producer to Retailer to Final Consumer, and Producer to Wholesaler to Retailer to Final Consumer.



Goods travel from producers to final consumers through any one of several "middlepersons," such as brokers, wholesalers, agents, and retailers. All middlepersons perform tasks for which they must be reimbursed. Each middleperson adds costs to the product. The role of middlepersons in the marketing function and the amount of cost they add to the product is very often a controversial issue. For example, some studies have shown that, for some product lines, as much as 50% of the price of any product is directly related to the marketing functions involved with getting the product from the producer to the consumer.

You, the entrepreneur, have two important decisions to make regarding the channels of distribution your firm will develop. First, you will need to decide which channel or channels are best for your firm. Selection of the correct channel or channels of distribution is an important task confronting the producer of goods. The nature of a product, its unit value, its technical characteristics, its degree of differentiation from competitive products, whether it is perishable, whether it is a staple or nonstaple--these are all factors that must be carefully studied when selecting distribution channels. The best channel will always be the one that shows the greatest promise of contributing the most to long-term profit. Second, it will be your responsibility to decide how you will effectively maintain the channels.

The costs of distribution are high, but the distribution function is essential if consumers are to have the goods they need. Every entrepreneur must decide for herself or himself how the firm's goods will be distributed to its customers.

PROMOTION

WHAT DOES PROMOTION INCLUDE?

The promotion marketing strategy includes several different activities: selling (personal selling), advertising, and sales promotion. Personal selling is the process of helping someone to decide to buy a product or service in a face-to-face situation. Advertising includes all nonpersonalized methods of mass selling which uses media such as radio, television and newspaper to present a sales message. Sales promotion activities include point-of-purchase advertising such as window displays, matchbook covers, calendars, special sales, trading stamps, and dealer aids. The manufacturer might use a sales promotion to convince dealers to push the product or certain product lines.

Small businesses must not underestimate the importance of promotion. Advertising and sales promotion are important in all types of buinesses whether they be retailing, distribution, service, or manufacturing. For example, there are many brands of recreational vehicles on the market. Each manufacturer uses different advertising and sales promotion strategies to tell consumers about the features of his or her vehicle. Each manufacturer trys to build a case for the firm's product by convincing customers that the firm's vehicle is best suited for that customer's needs. If you want your firm to succeed, you must promote your firm's products, your services, and your business.

Every business must continually attract new customers. Certainly, the customer who continues to return to purchase more of your goods and services is important--businesses depend on returning patronage. But soliciting new customers is equally important. The customers you have today may not be around tomorrow. Businesses relocate, people move, customers change their buying habits in addition to their needs. Advertising and sales promotion strategies help you keep your "old" customers and attract new ones.

Every company, product, and service develops an image. Projecting and developing the right image, the image the company wants customers to have about the firm and its product, is a complicated task. The product and company images the firm develops depend on the nature of the product, where the firm is located, competition, and the financial condition of the firm. You, the entrepreneur, will need to determine what you want your customers to associate with your firm--for example, low prices, top quality, or excellent customer service. You will then need to design a promotion plan to achieve that desired image.

BUSINESS TRENDS

WHAT IS IN THE FUTURE FOR SMALL BUSINESSES?

Unless the economy changes suddenly, it is reasonable to expect that a buyer's market--a market in which buyers, through their demand for a product, determine price-- will continue. The supply and demand for most products is such that a buyer's market does exist. There are some exceptions, especially in those fields involving products and services from natural resources. For example, energy products are becoming more and more of a seller's market.

Competition will probably increase. In recent years, businesses have begun to conceive of competition in a different way. Firms producing basically the same products view the same consumer dollars, rather than their respective products or services, as the center of competition. Your products and services and those of your competitors probably are quite similar, and your competitors are attempting to convince basically the same market to purchase goods from them. Therefore, you will need to convince customers that your firm has something special--something your competitors don't have. Your firm's something special may be lower price, better service, and extra bonuses such as trading stamps.

You, as an entrepreneur, can also expect that future buyers will be more sophisticated, demanding, and better educated. In a constantly changing business world, it is logical to expect that consumers needs will also change. Businesses which do not implement the marketing functions based on consumer needs and wants will face almost certain failure.

Having a successful business today is no guarantee that your firm will be successful tomorrow. But the small business owner who researches trends and develops a good marketing program can be optimistic about the future. The marketing function must continuously adapt to change since it is part of a complex network.

EXPOSURE ACTIVITES

As you have just read, the marketing function is a very important part of all business ventures. Now that you have learned something about the marketing functions of research product planning, pricing, credit, purchasing, inventory control, distribution and promotion, try these activities.

ASSESSMENT ONE

The following self-assessment is designed to make you think about you and the marketing function. Some questions will be more pertinent than others, depending on the type of business. Thus, a certain number of "yes" answers would not definitely indicate that you have all the skills needed to perform the marketing function.

Yes	No	
___	___	I know that my community wants, needs, and can support this business and that there are enough people with sufficient desire to spend money for the goods or services I plan to supply.
___	___	I've studied the strengths and weaknesses of my competition and can identify the marketable difference in my product or service.
___	___	I know how to go about finding the right location for my business and will select the site only after thorough research.
___	___	I've given a good deal of thought to how and where I can best advertise and promote my merchandise or services to the target market.

Yes	No	
___	___	I know the suppliers and the assistance they can provide.
___	___	I know how to forecast sales and expenses and how to use this information to help my business become successful.
___	___	I know how to price my goods or services competitively, meet expenses, make the payroll, and still turn a profit.
___	___	I know how to control my inventory or production to coincide with peak and slack periods in the business.
___	___	I know how to display, package or present my services or merchandise.
___	___	I know how to collect past due accounts without losing customers.

Did you answer the questions honestly? Remember that no one else will see your responses and that it's important that you, as an entrepreneur, possess at least some knowledge of the marketing functions.

ASSESSMENT TWO

1. What kinds of inventories, supplies, and equipment are needed to operate the following types of businesses: a cabinet-making business, a candle factory, and a printing business. You may want to survey local businesses.
2. Distinguish between advertising and sales promotion; provide examples to clarify your definition.
3. Using your community as a resource, attempt to interview two manufacturers to discuss the channels of distribution they employ to sell their products. Chart the channels of distribution that each businessperson uses. What differences exist?

4. As an entrepreneur, what would you consider when establishing prices for your products and services? Discuss each consideration in detail.

POSTASSESSMENT

1. Define marketing. Prepare a detailed answer by identifying the functions involved in marketing.
2. Discuss three marketing functions in detail.
3. "Marketing is a complex function because it involves so many activities and affects every part of a firm's operation." React to this statement. Do you agree or disagree with it? Describe how important you believe the marketing function will be in your firm.
4. Define the term "business image." "The firm's image is vital for its success." Do you agree or disagree with the statement? Why? What type of image will you attempt to establish for your company?

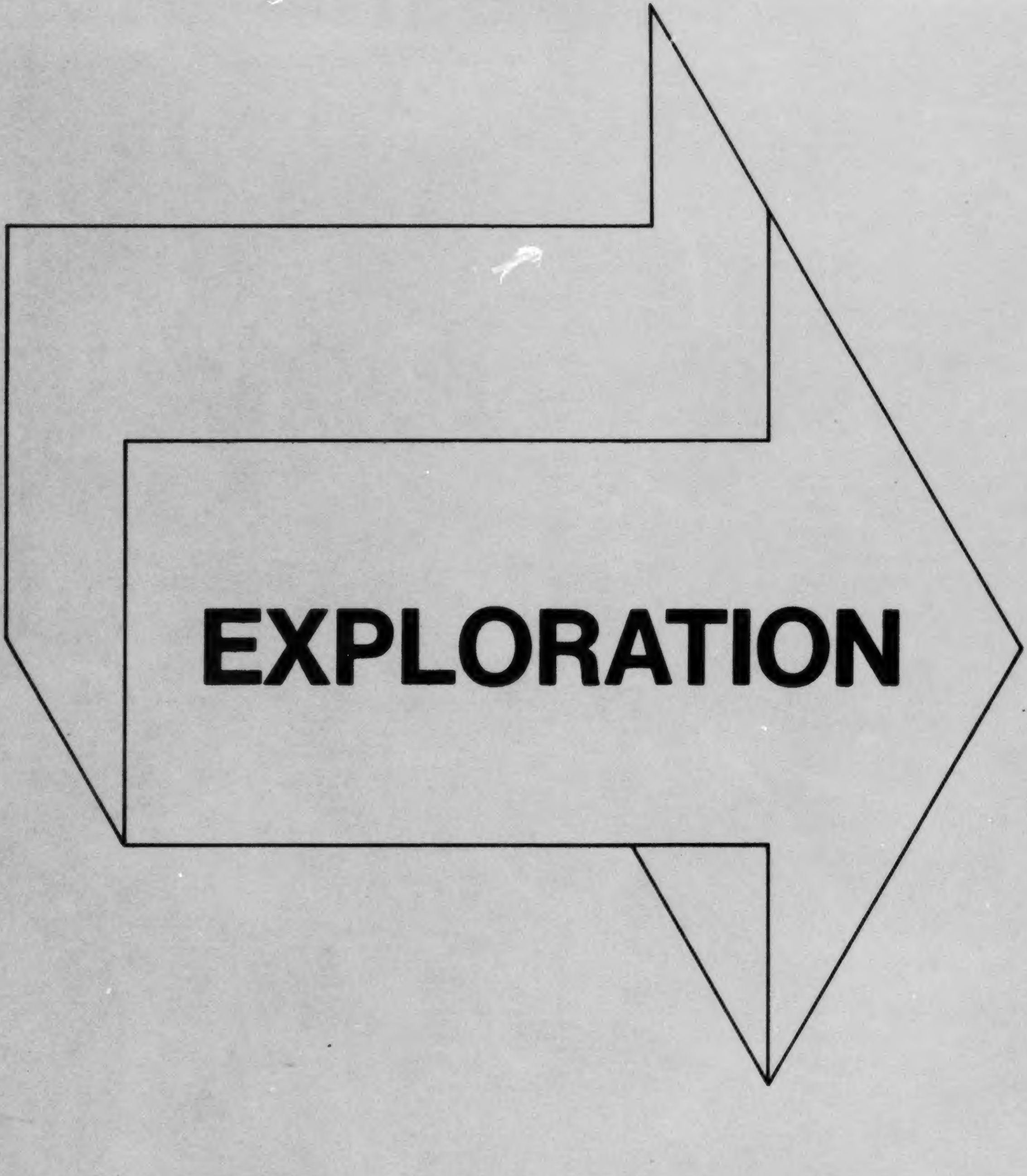
Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well
( ) Fairly well
( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.



EXPLORATION

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exploration Activities" section and measure what you've learned.

1. What are the steps involved in conducting market research?
2. Diagram the channels of distribution for industrial goods and for consumer goods. What are the differences between the channels, especially when considering cost factors?
3. What factors are important in establishing prices for a firm's goods and services?
4. Do you believe that setting prices is a complex function? Why or why not?
5. What's the difference between sales promotion and advertising? What are the methods used for each?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Discuss the factors to consider when purchasing business supplies and equipment.
2. Describe the costs associated with inventories.
3. Discuss the elements that affect pricing practices in small businesses.
4. Identify and discuss the steps used in conducting market research.
5. Describe various channels of distribution and how each channel may affect the cost of a product.
6. Describe the importance of extending credit to customers.
7. Identify and discuss briefly at least three media used for advertising and for sales promotion.

SUBSTANTIVE INFORMATION

IMPORTANCE OF MARKETING

HOW IMPORTANT IS THE MARKETING FUNCTION?

Your firm must sell products or services if it is to survive. Marketing activities not only help a business sell its established product line, but by helping the firm make a profit they also provide the opportunity to develop new products or services. Marketing activities help businesses produce the profits essential not only for the survival of the business but for the health and ultimate survival of our entire economy. Without profits, businesses would find it difficult to buy additional raw materials, hire more employees, attract more capital, and thus sell more products that, in turn, make more profits.

The marketing functions are not always practiced perfectly. Consumer groups, government offices, and perhaps you, have at times and for a variety of reasons, criticized advertisements, personal selling practices, product development techniques, packages, labels, and prices. Many parents would like the advertisements on children's television shows to be regulated. Many of us have probably been annoyed at one time or another by door-to-door salespeople and have even questioned their right to disturb us. We probably would all agree that sellers ought to honor their products' guarantees and warranties. And after purchasing a product, you may have wished that you had more information about that product.

As an entrepreneur, you have a responsibility to consumers to implement the marketing functions as best and as honestly as you can. Marketing helps customers decide which product or service is best for them. It follows, then, that information about products and services must be accurate and in good taste.

If it is to be effective, marketing must aid consumers in developing a higher standard of living. Mass marketing must help to lower the cost of the products and services and assist consumers in attaining greater satisfaction from goods and services they buy. Marketing can help to promote a dynamic, expanding economy. To the degree that marketing accomplishes this objective, it serves the consumer significantly.

Cost of Marketing

HOW COSTLY IS THE MARKETING FUNCTION?

Every business must perform many marketing activities which, obviously, cost money. It has been estimated that about one-half of a buyer's dollar is used to pay the costs of these activities. Since they consume so much of each dollar, business owners need to be responsive to consumers in explaining why products cost a certain amount, describing the numerous marketing activities necessary to make products available in the marketplace. Today's consumers are concerned about various marketing activities and business owners need to account for the various marketing functions they perform.

Purchasing Motives

WHY DO PEOPLE PURCHASE GOODS AND SERVICES?

Consumers buy to satisfy their wants and needs. When they buy any product or service, they do so because of what they perceive the product or service will do for them.

There are two primary classifications of why people buy. They buy for 1) emotional reasons and 2) rational needs.

Emotional buying motives include such motives as:

1. Pride of personal appearance
2. Social achievement
3. Ambition
4. Cleanliness
5. Pleasure
6. Increased leisure.

Rational buying motives include:

1. Durability
2. Economy in use
3. Economy in purchase
4. Handiness
5. Efficiency in operation
6. Dependability in use.

Psychologists have found in their research that consumer buying behavior is first directed toward satisfying certain basic needs. The very basic needs include hunger, thirst, and sleep. When motives are classified as rational or emotional, an individual attempting to fulfill the most basic needs is influenced only by those rational motives. Persons living at the level of minimum existence want the most for their money in terms of quantity, quality and dependability.

Most Americans live far above the minimum survival level and the majority of their purchases are to fulfill needs other than basic needs. Therefore, most purchasing is done to satisfy emotional buying motives. This fact makes the job of those selling directly to ultimate customers more difficult.

Most consumers would never admit they purchase goods and services to satisfy emotional needs. Distinctiveness and pride in personal appearance, which according to most psychologists are emotional buying motives, may be thought of by the customer as means of fulfilling the needs of belonging or being esteemed. In this sense, it might be said that, all consumer buying motives are logical. However, certain motives are generally agreed to be more rational than others and, because people think of themselves as rational individuals, people tend to express their reasons for buying in the most deliberate way possible.

Industrial users tend to be more "rational" in their buying than ultimate consumers. Industrial users usually only buy to fulfill the practical needs of their organizations. However, the entrepreneur who sells primarily to the industrial market needs to be aware that these "rational" organizations are comprised of individuals who, like all individuals, are basically emotional. So even industrial purchases are made on somewhat of an emotional basis.

To successfully market a product or service, the entrepreneur must be aware of the primary consumer buying motives for his or her product/service. The entrepreneur should also become familiar with the motivational research on buying and develop the strategies necessary to raise unconscious needs and wants to the conscious level.

The Functions of Marketing

WHAT ARE THE MARKETING FUNCTIONS?

Marketing includes many functions. The American Marketing Associations's definition is: "Marketing consists of the performance of business activities that direct the flow of goods and services from producer to consumer or user." Many marketing activities are necessary to get goods and services from producers to users. The marketing functions include market research, product planning, pricing, credit, purchasing, inventory control, distribution, advertising, and sales promotion. They will be discussed in detail later on in this section.

Types of Markets

ARE THERE VARIOUS TYPES OF MARKETS?

There are basically three markets in our economy:

1. Consumer market
2. Industrial market
3. Nonbusiness organization market

The consumer market consists of purchasers, individuals, or households who intend to consume or use a product for their own personal benefit and who do not buy products for the sole purpose of making a profit. Everyone belongs to the consumer market.

The industrial market consists of individuals, groups, or organizations who purchase specific kinds of products, to resell or to facilitate the organization's operation. There are many different types of industrial markets, which include:

1. Producer markets made up of individuals and businesses organizations that purchase products in order to make a profit by using them to produce other products or by using them in their operations. Buyers of raw materials, purchasers of semifinished and finished items used to produce other products, and retailers are part of the producer market.
2. Reseller market: Middlepersons such as wholesalers and retailers, who buy finished goods and resell them for the purpose of making a profit belong to the reseller market.
3. Governmental market: Federal, state, county and local governments make up governmental markets. They spend billions of dollars annually for a variety of goods and services to support their internal operations and to provide citizens with such products as highways, education, health protection, water, waste disposal, energy, and fire and police protection.

Nonbusiness organization markets consist of nongovernmental organizations that seek to achieve goals other than normal business goals such as a profit, market share, or return on investment. Examples of nonbusiness organizations are churches, hospitals, civic clubs, and charitable organizations.

Target Markets

WHAT ARE TARGET MARKETS?

Identifying your market and becoming familiar with it will help make your business successful. Ideas are worthless unless people can be persuaded to buy them. Therefore, one of the most important tasks you will need to accomplish as an entrepreneur is choosing a target market. Your target market represents the people who are most likely to purchase your goods and services.

When choosing a target market, several factors need to be considered including: the costs of selling to the group; anticipated sales volume; size and number of competitors who already are selling in the target market; and the financial resources required to sell to the target market. For example, a small clothing manufacturer who is thinking about adding swimwear to the company's product line might consider these factors in selecting a target market:

★ Racing swimwear is designed for function (plain and lightweight) and is inexpensive to produce. Recreational swimwear, however, is designed for appearance and can be expensive to manufacture.

★The product line for racing swimwear can be small, requiring only one or two styles. For recreational swimwear, a company must have a larger product line aimed at more ages, sizes, and tastes.

★The distribution of athletic swimwear would be primarily to sporting goods stores. Recreational swimwear would be distributed to almost all clothing stores.

★The advertising for racing swimwear would be limited mainly to sports magazines, while advertising for recreational swimwear would probably have to appear in several types of media.

★The prices of athletic swimwear could be higher than recreational swimwear because there are fewer competitors.

The importance of identifying a target market cannot be overemphasized. For example, in 1975 Jim and Diana Russell opened their own specialty restaurant, Energy Sources, Ltd., featuring natural foods. They found a location for the restaurant in the affluent Buckhead section of surburban Atlanta, Georgia. Jim characterized a large number of their customers as "..older residents, many of them diet-conscious diners, in the condominium buildings in the neighborhood and (from) workers on lunch breaks from the many businesses in the vicinity." When the restaurant first opened, the target market that the Russells had identified did not patronize the place as expected.

> *At the beginning, perhaps because of the restaurant's name and its "alternative foods" menu, Energy Sources attracted more footloose young people than the Russells wanted. "For one thing," says Jim, "they don't have the money to spend." Soon enough, however, their patronage*

> *dwindled and the customers the Russells were really after--shop clerks and managers, suburban residents, people fairly well-off and used to eating out often--were becoming regulars at the new restaurant with its different, meatless cuisine.*
>
> *"Perhaps 20% to 30% of our customers are vegetarians; 60% are diet-conscious people; the rest are just people who come in to try it, and they seem to like it. There's no smoking in the restaurant, no hamburger or french fry smell, no Coca-Cola. We serve only shakes, fruit and vegetable juices, and bottled water. It smells fresh in here and the meals are tasty and nutritional."* (Changing Times, June 1977, p. 26) Reprinted by permission from Changing Times, The Kiplinger Magazine, June 1977 issue. Copyright 1977 by the Kiplinger Washington Editors, Inc., 1729 H. Street NW, Washington, DC 20006.

The Russells adapted their restaurant menu to respond to the needs of the target market. The menu and prices are probably the reasons why the restaurant began showing a profit only six months after it opened, which is not common for most new businesses, especially in the restaurant field. This restaurant appears to have identified an important key for business success, effective marketing.

The Marketing Mix

WHAT IS THE MARKETING MIX?

Marketing has been defined as the function of moving goods and services from producers to consumers. In order for the marketing function to accomplish its task effectively, there are four marketing components which must be combined correctly. These are product, price, place, and promotion. They are commonly called the 4P's of marketing. The combination of these components is known as the "marketing mix." If you can effectively combine the four elements of the marketing mix, the profitable sale of your product or service should result.

Each component of the marketing mix has a function. First, to perform the product component of the marketing mix accurately, it is extremely important to identify target markets. The entrepreneur must know who the potential customers are and what they want or need. Identifying a viable segment of a particular market is essential. Then the right product -- the product which will fulfill their wants and needs must be produced or purchased. You must know the customer group you want to sell to in order to create and maintain a marketing mix that specifically fits the product or service requirements of that group.

Price is the second component in the marketing mix. The objective of pricing is to offer the product or service at a price which is equal to the value to be received by the customer. The right price is the one that 1) will gain the most sales and 2) is high enough to cover the costs of doing business and generate a profit.

Place is also another element of the marketing function. Place simply means having the product or service at a place that is convenient for customers. In order to implement this component effectively, you, the entrepreneur, must know your customers' buying habits. Finding the right place depends upon the type of product or service and how the customers normally buy that product or service.

The last component of the marketing mix is promotion. Promotion involves trying to determine the proper means of communicating the availability and benefits of the product or service to the potential customer. Determining the right methods of promotion will involve considering many factors including the product, price, and place components of the marketing mix.

The Changing Market

HOW HAS THE MARKET CHANGED?

All markets, including the industrial and nonbusiness markets, have undergone some fundamental changes. The consumer market is continuously changing. Many factors have contributed to market changes, including:

1. Population changes, such as shifts in age distribution and greater mobility
2. Size and distribution of income, including increases in total purchasing power and discretionary income
3. Changes in lifestyle and attitudes
4. Return of women to the work force
5. More leisure time
6. General increase of buying on credit
7. Increase in the number of white collar workers
8. Higher overall educational level.

The alert entrepreneur watches changes carefully. In order to respond to them, the entrepreneur might modify or refine some of the firm's policies and procedures. Attempting to predict and keep up with the market place is an important and difficult task, often requiring market research.

MARKET RESEARCH FUNCTION

WHAT DOES MARKET RESEARCH INCLUDE?

Market research includes all the activities involved in gathering information about the firm's target markets. It includes getting information about the market's buying habits, competition, distribution patterns, and sales practices. It includes developing a market research plan for getting all the information needed to select and successfully sell products and services to identified markets. For example, the small apparel manufacturer considering adding swimwear to the company's product line should engage in market research activities to get the information needed to make the right business decisions.

Conducting Market Research

ARE THERE "STEPS" IN MARKET RESEARCH?

In conducting market research, the traditional problem-solving approach is used. The five steps of problem-solving are used. These include: recognizing the problem, preliminary investigation and planning, gathering factual information, intrepreting the information, and reaching a conclusion.

The first step, recognizing the problem, is vitally important. Identifying the problem is not always a simple process. Often the real problem is not obvious. The entrepreneur must probe carefully and accurately to identify the real problem before conducting any of the other steps in market research. If the problem is not accurately determined, the rest of the marketing research will be wasted.

The second step is making a preliminary investigation and planning the research. This step may involve analyzing records, talking with people inside and outside the firm, and reading trade publications. If more information is required, the researcher should try to identify the best method for obtaining it.

Gathering factual information is the third step. Four basic methods for collecting data are interviewing, observing, experimenting, and sampling.

The fourth step is to interpret the information obtained in the previous step--what does it mean and how important is it? The data should be carefully analyzed and a number of possible solutions determined.

In the final step, reaching a conclusion, the best all-around solution should be chosen and implemented. After implementation, the results obtained should be evaluated and used for future reference.

Sources of Market Research Information

WHAT SOURCES ARE AVAILABLE FOR MARKET RESEARCH INFORMATION?

Many small businesses don't engage in market research activities because they believe the sources of market research information are not accessible. However, several data sources are available to small businesses. The firm's records are a very important source of information. They can be analyzed to determine which products in which price ranges sold best.

The government is another source of information. The Bureau of the Census publishes information about businesses, population, housing, and other areas. Numerous reports and pamphlets are published by the Small Business Administration (SBA), the Departments of Labor and Commerce, and the Federal Reserve Board.

There are many other sources of research information available to the small business owner. Trade associations collect and publish data for their members in their particular area of specialization. Trade journals often report research findings. Local chambers of commerce, banks, newspapers, utility companies, and other organizations can provide data. Business magazines and newspapers contain marketing information.

PRODUCT PLANNING FUNCTION

WHAT DOES PRODUCT PLANNING INCLUDE?

If an entrepreneur is to achieve goals of sales and profits, the product or service marketed must satisfy consumer or user needs and desires. This involves product planning. Many times a product can become obsolete and may need to be adapted to suit consumer needs. This can be due to research which results in product improvement which, in turn, changes consumer demands. Most businesses today face being eliminated from the market--going out of business--if they do not keep up with consumers' changing needs and wants.

Every type of business is concerned with product planning. A grocery wholesaler who begins a cash-and-carry service is engaging in a product planning activity at the wholesale level. A men's clothing store that adds a selection of women's apparel and discontinues offering customer delivery service is doing product planning at the retail level. Although retailers and wholesalers normally call such changes "merchandising," it is comparable to what manufacturers do under the name of "product planning and development."

Middlepersons, such as wholesalers, agents, and brokers, also consider product planning and development. Product planning from a middleperson's standpoint usually means making changes in product lines handled and in services offered.

In some businesses product adaptation constantly occurs. In the pharmaceutical industry, products developed within the last twenty years normally account for more than half of the sales and profits of the more progressive companies. In such industries, the firm that does not innovate almost certainly fails.

The Marketing Concept

WHAT IS THE MARKETING CONCEPT?

The marketing concept has its roots in the early 50's. In its Annual Report of 1952, General Electric announced its new management strategy: marketing was going to be introduced at the beginning of the production cycle rather than at the end. Emphasis was to be placed on what the consumers wanted and needed. Today's marketing concept is also based on the notion that what is produced must be what customers want and need. Most successful companies today practice this consumer-oriented marketing strategy.

Traditionally, engineering and technical research were concerned with designing products to meet certain performance standards. Production people assumed the responsibility of developing and producing the product. For example, in the past, engineers were assigned to develop a pocket radio which would bring in all stations within a fifty mile radius. It was only after the radio was manufactured that the marketing function became involved. Firms which subscribe to the marketing concept no longer use this process.

The marketing concept has assumed an increasing role in product planning and development. Research is geared to marketing needs such as appearance. Since most customers take performance for granted, they often seem to be more interested in the appearance and other "nonessential" details of the product. Therefore, consumers may avoid products with superior engineering and performance in favor of adequate products with more attractive designs and extra features.

PRICING FUNCTION

HOW ARE PRICES SET?

There are several factors that need to be considered when setting prices. They are: cost of goods, profit, business environment, competition, the product, and supply and demand. The elements affecting a seller's prices and the factors a seller considers when setting prices should also be analyzed.

The first element to consider in setting prices for goods and services is the cost of the goods you sell. The cost of advertising, maintenance of physical facilities for selling, and delivery costs must be absorbed into the selling price. For the manufacturer, this cost also includes the cost of raw materials, manufacturing the product, and administrative and selling expenses. Wholesalers or retailers must include the amount paid for the goods plus administrative and selling costs. When establishing prices, the service firm must consider the cost of materials used and purchased to perform the service, labor cost in performing the service, and overhead expenses.

The second element in setting prices is determined by the profit philosophy of the firm. All businesses must make a reasonable profit. Can the business offer discount prices in hopes of high volume? Or should it seek a high profit per unit of goods sold, with relatively higher prices and an expected small volume?

The economic conditions existing both locally and nationally make up the third element. Although it may be difficult to judge local business conditions, you could start by finding out the unemployment rate for your area. Banks normally report total savings deposits periodically, and business associations may report on total sales volume for a given geographic area for a stated period of time. These figures can be compared with ones recorded previously. Numerous business publications report weekly, monthly, and yearly information that reflects current general business trends.

The fourth element affecting pricing is competition. The entrepreneur may decide to sell at the same price as competitors or undercut competitor's prices. Instead of matching competitor's prices, the entrepreneur may employ other forms of competition. For example, more customer services may be provided. This is called nonprice competition. Wider selections, convenient location, delivery, wrapping, and other services at no extra charge are all examples of nonprice competition.

The fifth price setting element is the nature of the product. Raising or lowering prices of table salt or a luxury automobile will not have much affect on the quantity sold. The purchase of stereo systems and soft drinks, however, will increase or decrease as prices vary, and sales can usually be quickly stimulated by advertising.

Lastly, supply and demand factors will affect prices buyers are willing to pay. The nature of the demand for an article is determined by how much the article is desired and by its intended use. When supplies are short and demand is high, prices tend to rise. When supply is high and demand is low, prices tend to fall. Variances in prices, then, may be based on the nature of each product's demand. An oversupplied market normally cannot bring high prices.

CREDIT FUNCTION

WHAT'S INCLUDED IN THE CREDIT FUNCTION?

The business world operates on a credit basis, and consumer components of our economy exist on credit. There is not enough currency and coin available to finance everyday transactions. Bank deposits exceed the money actually in the country several times over. The key is credit extended throughout the economy. Without credit available from banks and mortgage firms, most manufacturers could not operate; without credit from manufacturers and financial institutions, most wholesalers could not function; and without credit terms available, the average family could not buy a home, an automobile, major appliances, or finance expensive vacations. It is predicted that the consumer installment debt in the U.S. will exceed $200 billion.

Credit must be considered when making marketing decisions. This is true regardless of the area in which the decision must be made--product planning, channels of distribution, promotion, or pricing.

Credit is a privilege extended by a seller. Sellers can be producers, wholesalers, agents, or retailers. By using credit, a buyer is promising to pay for the goods or services at a later time. Credit means trusting the buyer to pay. If the buyer does not pay or is slow in paying, the creditor must find other sources of working capital. Extending credit increases the entrepreneur's element of risk.

Basically there are two types of credit 1) consumer credit and 2) business credit. Consumer credit is granted by retailers and service firms to their customers. Business credit is granted by manufacturers, service firms, and wholesalers to their customers, which are other businesses.

Granting Credit

ARE THERE FACTORS TO CONSIDER BEFORE GRANTING CREDIT?

Care in granting credit is important and involves consideration of four basic factors 1) character, 2) capacity, 3) capital, and 4) conditions. These are known as the four C's of credit.

Character means the customer's honesty. Much can be determined about a customer's character by reviewing the person's lifestyle, reputation, associates, employment record, and credit history. For example, there are about 1,800 credit bureaus in the U.S. that collect and report the paying practices of consumers. These bureaus will provide the information to the entrepreneur for a fee. TRW's Credit Data division is one of the largest computerized credit bureaus.

> *The business of credit reporting has not changed essentially since the days when Jim Chilton--Bob's grandfather--went around to Dallas merchants and bankers and gathered information on how well local farmers paid their bills. Today a retailer, banker or finance company will hand accounts receivable records to a credit reporter who will put them with the records of other lenders as they pertain to a particular individual. The next time that individual tries to borrow or open a charge account, a credit report is supplied to the lender or retailer at a charge of $1.50 per report.*
>
> *With more Americans borrowing more and with an assist from laws such as the Equal Credit Opportunity Act of 1974--separate credit reports for wives and husbands--the business of firms like Chilton grows steadily. As Bob Chilton sees it, the very computerization that speeds up the supply of credit data creates credit opportunities. "There are banks that advertise a lunchtime loan," says Chilton, a lean athletic man. "They couldn't grant a loan in minutes without virtually instant credit data services."*
> (Forbes, November 15, 1977 p. 170) Reprinted by permission of Forbes Magazine, from the November 15, 1977 issue.

Capacity means the ability to earn. Before granting credit, you'll want to answer questions like these: Does the customer have a job? How old is the customer? Is he or she likely to keep the current job, and does the job provide sufficient income to pay all the bills?

Capital refers to anything of value that the customer owns that can be taken if the bill is not paid. However, the ability and willingness to pay future debts are more important than what the customer owns.

The fourth factor, conditions, refers to the existing economic conditions in the area at the time you are considering extending credit.

Every new small business must decide whether or not it will sell to its customers on credit. If credit is to be available, a decision must be made as to the kind of credit to be extended. You may decide that your firm will sell to its customers on an open credit account and carry the accounts in its books until they are paid or you may decide the firm will extend credit only to credit-card holders who have been approved for credit by one or more of the credit-card companies.

The decision to grant credit is more critical for small firms than large companies because the small business is usually less able to absorb heavy losses which may result from uncollectable accounts. Credit sales may increase your firm's total sales and profits only if the increased sales do not cost more in administrative expenses and bad debt losses than the profits derived from the credit sales. Bad debts expense is one of the facts of life for any firm which sells on credit and carries the accounts in its own books. More and more firms find it necessary to seek assistance in collecting delinquent accounts.

Therefore, extreme care needs to be exercised when granting credit, and credit accounts (especially those that become delinquent) must be given follow-up attention. The longer a credit sale is carried on the firm's books, the greater the likelihood that it will not be collected. To minimize the problem of delinquent accounts, good follow-up procedures for aging accounts receivable must be established.

Every firm should have a procedure for granting credit. Since customers asking for credit are asking to use the firm's capital, they should be willing to comply with reasonable rules concerning credit.

PURCHASING FUNCTION

WHAT'S INCLUDED IN THE PURCHASING FUNCTION?

An important marketing function is the purchasing of goods and services for resale or use in the business. How well you buy the items your firm needs depends upon your skill in analyzing the interrelationships among the components of the purchasing function. When buying for the business, a number of factors should be considered, such as quality, quantity and price.

Quality of the product purchased relates to its suitability for its intended purpose. A manufacturer must seek raw materials that are of a high enough quality to meet manufacturing specifications.

Wholesalers must also choose the right quality to meet customer needs within price guidelines. In retailing, the image the store creates is often a result of the quality of merchandise it offers for sale. However, if the quality is too high the cost may be too high.

Along with quality, the business must buy in the appropriate quantities. If too much money is used to purchase raw materials or merchandise, the business is probably not making the best use of its available dollars. Any money saved in buying large quantities may be offset by increased storage costs and spoilage of the goods. For example:

> *Another error he can now smile about was his purchase in the beginning of 250 fairly expensive printed menus. Two hundred of them still lie unused in his tiny, carton-and-equipment-filled office. In his first year he learned that prices and menu offerings would change long before the 40 or 50 menus in use needed to be replaced because of wear and tear, and that the 200 menus gathering dust have no value except as reminders of a novice's miscalculation.* (Changing Times, June 1977, p. 28) Reprinted by permission from Changing Times, The Kiplinger Magazine, June 1977 issue. Copyright 1977 by The Kiplinger Washington Editors, Inc., 1729 H. Street, NW, Washington, DC 20006.

However, purchasing small quantities may mean reordering more often than is desirable and may add to the price per unit. In addition, the business may run out of the product when it is needed.

The price of goods purchased is another significant factor, particularly for small businesses which often need all of their funds for day-to-day operations. The proper mix of price and quality desired for your specific requirements should be analyzed carefully.

Because rental, wholesale, manufacturing and service business functions are different, purchasing for each business will be different. Adjusting to and providing for consumer wants is the primary purchasing goal of retailers. Successful retailing involves anticipating customers' needs so that goods will be on hand when they are wanted. Buying by wholesalers is similar in many respects to that of the retailer. Manufacturing and most service businesses require materials to conduct their business. Purchasing for a factory or service business is done to fulfill expected production needs and anticipated sales.

Use of Suppliers

WHAT ROLE DO SUPPLIERS PLAY IN THE PURCHASING FUNCTION?

Careful evaluation of suppliers--choosing suppliers who can best meet your business' needs--is another important part of the purchasing function. When selecting a supplier or vendor consider the services the supplier offers and her or his reputation for being dependable and reliable and meeting delivery dates.

You will need to decide whether you will purchase from a few select vendors or from many. Naturally, the type of business you are in will determine if there are many vendors available. Possible hazards may develop if the business becomes overly dependent on a single supplier. Various problems may arise which may make it impossible for the supplier to make deliveries. On the other hand, dealing with many suppliers means that you divide your order among them and have the low status of a small customer. Usually, firms find that choosing a few select suppliers is the best policy.

Geographic closeness of suppliers may mean a savings of time and money. Transportation costs may increase the costs of goods if the supplier is located some distance from your firm. Transportation costs are high and owners should consider them carefully when purchasing goods. Several forms of transportation terms are offered by vendors. When prices are quoted "f.o.b. (free on board) factory," the buyer pays all transportation charges from the supplier's delivery platform. When terms are quoted "f.o.b. shipping point," the vendor assumes the cost of transportation to the local shipping point and the buyer pays all further charges. When goods are sold "f.o.b. store/plant," the buyer has no transportation charges to pay. Long shipping distances may also create time delays in receiving the merchandise. Purchasing locally demonstrates your support for the community. Since local purchases mean that dollars will stay in the community, buying locally represents good community relations.

Because of lack of financial strength, the small buyer may sometimes be at the mercy of the supplier. Therefore, maintaining good relations with suppliers is essential. Maintaining good relations includes paying your bills within the time period agreed upon, returning damaged goods as quickly as possible, and being ethical in your business practices.

Terms of Sale

WHAT TERMS OF SALE ARE AVAILABLE?

The terms of sales offered vary among vendors. The types of discounts and terms of sale offered by suppliers should be considered in the purchasing decision. Many vendors offer trade discounts. This is simply a discount given by a vendor to other businesses, based on the type of business they are. A vendor may give retailers, wholesalers, and manufacturers different trade discounts. For example, a manufacturer may offer a different percentage discount to wholesalers than retailers. Each type of business performs a different function; wholesalers generally buy larger quantities than retailers. The same logic applies to a retail building supply store that sells merchandise to building contractors at 25% off the listed price, while the general public pays the full price. The contractor will usually buy in larger quantities and more often than the ultimate consumer.

To encourage these larger purchase orders, quantity discounts are offered by vendors. Again, the small business operator must determine how much he or she can realistically afford to purchase. The amount of discount given is based upon the number of items purchased. The discount rate allowed on the purchase of five dozen items may be different from discount rates on twenty five dozen items.

The cumulative quantity discount allows the purchaser a discount if the purchases exceed a specified quantity or dollar amount over a predetermined time period. For example, a paint supply store might offer painting contractors varying percentage discounts depending upon how much they buy in one year. If they buy $10,000 worth of paint in a year's time they may be given a 20% discount, while those buying between $4,000 and $6,000 worth would be given a 14% discount.

Another common discount offered is the cash discount. It is offered as an incentive to the business owner to pay for goods promptly. Entrepreneurs should take advantage of cash discounts whenever possible. Some of the common types of cash discounts are 2/10, net 30 and 2/10, net EOM. The "2/10 net 30" means the seller extends credit for the amount of the goods purchased for a period of 30 days. The total bill is payable at the end of 30 days. However, if the bill is paid within 10 days of the invoice date, the business will receive a 2% discount on the purchase price. The "2/10, EOM" means that the buyer can take a 2% discount if the bill is paid by the tenth of the month following the purchase. For example, for a purchase made on April 1 with terms of 2/10 EOM, the 2% discount could be taken at any time through May 10.

INVENTORY MANAGEMENT FUNCTION

WHAT'S INVOLVED IN THE INVENTORY MANAGEMENT FUNCTION?

The importance of inventory control is greater for firms that have a high proportion of funds invested in inventories than for those that purchase little. Generally, retailers and wholesalers have a higher proportion of their capital invested in inventories than manufacturers and service businesses. The differences in the capital invested in inventories by kinds of businesses is illustrated on the chart on the next page. Of course, the size of inventories needed depends specifically on the kinds of products made, the services performed, and the products sold.

In August 1977, Changing Times published projections of the amount of money it would take to open various types of businesses and to keep them operating for three months (next page). In addition, based on projected sales volume figures, the dollar investment needed in inventory was calculated.

For many years, there was little done in the way of organized inventory management. Few stock records were kept. "Eyeball inventories" were used to determine how well an item was selling, and purchases were made on the basis of these estimated inventories. As businesses grew in sales, the need for more accurate information was apparent. Tax laws now require businesses to determine their inventories at least yearly. Today all businesses are more concerned with improving the firm's inventory management procedures.

Four basic guidelines for improving inventory management were developed by Harcy C. Krentzman in cooperation with the Small Business Administration.:

1. *Develop a system with procedures appropriate to the importance and size of inventories.*
2. *Maintain appropriate records on the firm's basic inventory transactions.*
3. *Establish and maintain effective receiving, inspection, stocking, packing or issuing and shipping operations.*
4. *Locate inventories so that inventory-taking can be accomplished conveniently.*

THE MONEY IT TAKES TO GET A SMALL BUSINESS GOING

type of business & annual gross sales	*investment in inventory*	*total capital investment (for start-up and first three months' operation)*
Building Maintenance Service		
$25,000 to $75,000		*$8,000 to $16,000*
Plant Shop		
$25,000 to $80,000	*$5,000 to $10,000*	*$11,000 to $24,000*
Bookstore		
$75,000 to $100,000	*$12,000 to $20,000*	*$25,000 to $53,000*
Beauty Salon		
under $100,000		*$15,000 to $29,000*
Yarn Shop		
$50,000 to $100,000	*$8,000 to $12,000*	*$16,000 to $25,000*
Repair Service		
Furniture		*$10,000 to $20,000*
Car		*15,000 to 40,000*
TV/radio		*10,000 to 25,000*
Appliance		*6,000 to 20,000*
Clock/watch		*8,000 to 12,000*
Shoe		*15,000 to 25,000*
Business machine		*6,000 to 10,000*
Bicycle		*6,000 to 10,000*
Contractors (plumbing, carpentry, electrical, etc.)		*10,000 to 30,000*
Equipment Rental Service		
$50,000 to $200,000		
Camping/recreation	*$ 7,500 to $15,000*	*$15,000 to $25,000*
Soft goods (party sickroom)	*12,500 to 21,000*	*25,000 to 35,000*
Fabric store		
$100,000 to $200,000	*25,000 to 35,000*	*38,000 to 58,000*
Hobby/crafts store		
under $200,000	*20,000 to 30,000*	*36,000 to 56,000*

(Changing Times, August 1977, p. 40) Reprinted by permission from Changing Times, the Kiplinger Magazine, August 1977 issue. Copyright 1977 by the Kiplinger Washington Editors, Inc., 1729 H Street, America's Small Business Reporter series.

Krentzman also developed a list of basic information required from inventory control systems and records:

1. *Demand: A record of orders or sales.*
2. *Purchases: A history of resources, prices, order cycles and quantities.*
3. *Receipts: Quantities, delivery cycles, and return goods.*
4. *Issuance: Rate of internal use or specific delivery data.* (Managing for Profit, 1968, p. 10)

A well-organized method of inventory control should be tailored to meet the needs of the business. Visual observation may be sufficient for some very, very small businesses; the perpetual inventory may be needed by others. The physical inventory will provide data for analyzing how well the business has performed in a given period. Whatever method or combination of methods is used, it should provide the entrepreneur with current information to make effective decisions.

DISTRIBUTION FUNCTION

ARE THERE DIFFERENT CHANNELS OF DISTRIBUTION FOR DIFFERENT PRODUCTS?

The entrepreneur must decide how to distribute the company's products and services. This is done through various channels of distribution. A channel of distribution is the pathway a product follows to get from producer to ultimate user.

Consumer and industrial goods follow somewhat different channels. The decision of which channels to use should be based on the type of consumer and industrial goods. Product characteristics, such as the nature of a product, its unit value, its technical aspects, its degree of differentiation from competitive products, whether it is perishable, or a staple or nonstaple, determine which channels are best. Many times businesses will use multiple channels to buy and sell goods.

Marketing of goods and services includes basic functions that must be performed by someone, regardless of the distribution channel used. None of these basic marketing functions can be eliminated. The elimination of a middleperson, for instance, does not eliminate the functions being performed. Some other channel member must absorb these functions.

Consumer Goods

ARE THERE DIFFERENT TYPES OF CONSUMER GOODS?

Traditionally, consumer goods have been classified into three areas based on differences in consumer buying attitudes and behavior. The three classes of consumer goods are convenience goods, shopping goods, and specialty goods.

Convenience goods are items that are bought frequently, immediately, and with minimum shopping effort. Convenience goods include candy, gasoline, cigarettes, and most grocery products. Most of these products are nondurables--that is, they are consumed or "used up" rather rapidly; hence consumers buy them frequently and normally neither postpone their purchases nor make them much in advance of the time of consumption.

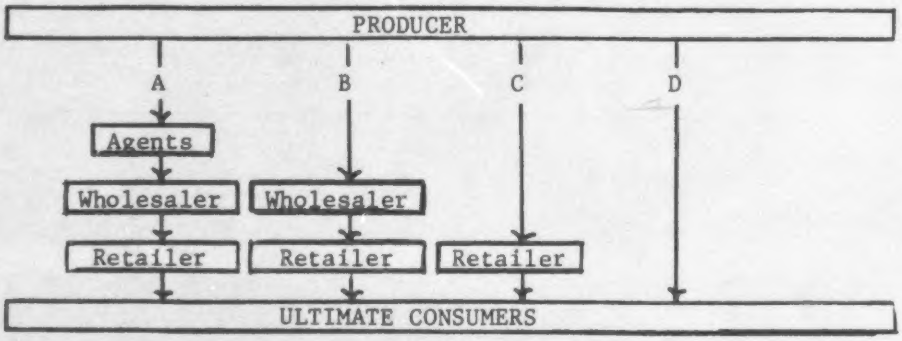
Shopping goods are items that the consumer selects and buys only after making comparisons on such bases as suitability, quality, price, and style. These goods include furniture, household appliances, and shoes. Prior to actually buying these items, the consumer shops around and compares the offerings of different stores. Typically, shopping goods are bought rather infrequently, they are "used up" quite slowly, and the consumer often is in a position to defer or advance the date of purchase. Thus, the consumer can afford to spend a considerable amount of time and effort in making the buying decision.

Specialty goods are items for which significant numbers of buyers are habitually willing to make a special effort to purchase. Specialty items possess unique characteristics or have a high degree of brand identification or both. Examples of specialty goods are fancy foods, special stereo equipment, and stamps and coins for collectors. The consumer already knows the product or brand he or she wants; the special purchasing effort is involved in finding the outlet where it is on sale. In reaching the buying decision, consumers do not usually compare the desired specialty goods with others, as in the case of shopping goods.

Channels of Distribution

WHAT ARE COMMON CHANNELS OF DISTRIBUTION FOR CONSUMER GOODS?

Consumer goods follow several typical distribution channels:



One of the most traditional channels for consumer goods is channel B (Producer → Wholesaler → Retailer → Consumer). Convenience goods usually follow this channel.

Many consumer goods are sold by the producer directly to the final user (channel D). For example, you can stop at a farm produce stand and buy a dozen ears of corn. Magazines, cosmetics, books, baked goods, seeds, flowers and shrubs can also be bought directly from producers. Consider the following:

> *Shaklee is the dispenser of the $245 million worth of food supplements, cosmetics and household items that are sold by doorbell ringers and party throwers throughout the country. Its army of self-employed salespeople can rake in an aggregate $100 million a year in Shaklee bonsues and incentive awards. Most of these salespeople are housewives and moonlighters who do it for pocket money. But a handful are $100,000-a-year master coordinators. All espouse the virtues of Shaklee in private and in group sales sessions with an evangelistic sales pitch updated but basically unchanged from the days of sideshow medicine men and backwoods faith healers.*
>
> *There's profit aplenty for everyone. In less than 20 years Shaklee itself has grown from a home-basement operation into a cash-rich business that could earn $18 million this year-45% on stockholders' equity. Shaklee has been touted as "another Avon" on Wall Street, and its stock (56% owned by the Shaklee family) now has a total market value of $160 million, a huge premium over its book value of $40 million.*

(Forbes, October 15, 1977, p. 83) Reprinted by permission of Forbes Magazine from the October 15, 1977 issue.

Sometimes distribution involves even more than two middlepersons in a transaction (channel A). Often, highly perishable goods must be disposed of quickly. For example, a tomato farm in California has a sizable crop. It is probably to the tomato grower's advantage to contact a broker. A broker does not handle the goods but he or she sells the goods without even seeing them. The broker helps sellers find buyers or buyers find sellers. The broker won't buy the tomatoes, but will sell and handle the distribution for a commission. The tomato grower may also contact a commission merchant who actually handles the goods. The commission merchant contacts wholesalers and then sells the tomatoes. Sometimes a commission merchant will buy certain goods and hold them until she or he can get a good price. When this is done, the commission merchant actually becomes a wholesaler. In this situation, channel A in the previous diagram becomes even more complicated.

Industrial Goods

ARE THERE DIFFERENT TYPES OF INDUSTRIAL GOODS?

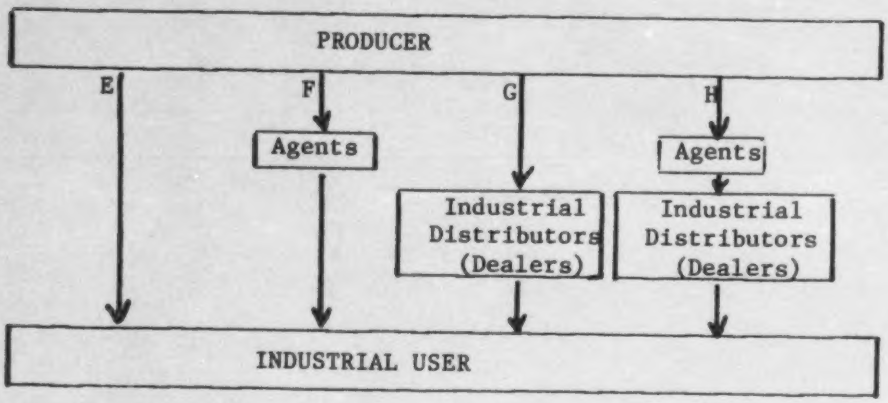
Industrial users depend on more uniform patterns of buying behavior than do ultimate consumers. Different industrial buyers are remarkably alike in the way they go about making buying decisions for similar products. The approach which an automobile manufacturer takes to buy machine tools, for example, closely resembles that taken not only by competitors but by other buyers of machine tools. Classification of industrial goods is less complex, and is based on the uses to which the products will be put. Most industrial goods fall naturally into one of the four categories 1) equipment and physical facilities used in producing goods or services, 2) materials used in making a product,

3) manufacturing or service supplies, and 4) management materials.

Channels of Distribution

WHAT ARE COMMON CHANNELS OF DISTRIBUTION FOR INDUSTRIAL GOODS?

Typical marketing channels for industrial products are:


PRODUCER
E
F
G
H
Agents
Agents
Industrial Distributors (Dealers)
Industrial Distributors (Dealers)
INDUSTRIAL USER

Industrial distributors are middlepersons who provide the same services as wholesalers of consumer items,to buyers of industrial goods.

Industrial products sold to large industrial buyers, such as cold-extruded steel parts sold to automobile manufacturers, usually are sold directly (channel E). If the number of buyers increases, direct distribution may not be effective.

PROMOTION FUNCTION

WHAT DOES THE PROMOTION FUNCTION INCLUDE?

Promotion is the marketing function responsible for communicating with individuals, groups, or organizations to directly or indirectly influence them to purchase a firm's products and services. Personal selling is one type of promotion strategy used to sell a product or service. Advertising is another type of promotion strategy. Advertising is a paid form of nonpersonal communication to a target market about a firm or its products through a mass medium. Sales promotion is a third method that acts as a direct incentive for the product and includes activities other than personal selling and advertising. Sales promotion is used to produce immediate, short-run sales increases.

Sales Promotion Techniques

ARE THERE DIFFERENT SALES PROMOTION TECHNIQUES?

There are a number of sales promotion techniques available. These are grouped into two main categories: consumer and trade. Consumer sales promotion techniques encourage customers to patronize a particular retailer or purchase a particular product. Trade sales promotion methods are designed to stimulate wholesalers and retailers to carry a producer's products and to market them aggressively.

Consumer Sales Promotion Methods

WHAT ABOUT CONSUMER SALES PROMOTION METHODS?

There are a variety of consumer sales promotion methods in use. They include retailer coupons, demonstrations, trading stamps, point-of-purchase displays, novelty items, samples, premiums, and contests and sweepstakes.

1. Retailer coupons are effective if the price is a primary motivation. They usually are "cents-off" coupons. The primary purpose of coupons is to bring customers into the store.
2. Demonstrations are often used by manufacturers on a temporary basis and are excellent attention—getters in a store.

3. Trading stamps are given in proportion to the amount spent by the consumer. Stamps are attractive to consumers if the price of goods is not increased.
4. Point-of-purchase displays are at the point where merchandise is located. They include window displays, counter pieces, display racks, and self-service cartons.
5. Novelty items are ads such as the name, address and phone numbers of the firm on pens, pencils, calendars, balloons, key chains, matches, etc. These are novel ways to attract attention and give the customer a small gift and reminder of the firm.
6. Samples are used to increase sales volume during early stages of the product's life cycle or to obtain desirable distribution.
7. Premiums are products offered free or at a reduced price to encourage a customer to buy the promoted item.
8. Contests and sweepstakes can also be used to promote products. Contests require skill, and entries are judged based on the abilities of the contestant. Sweepstakes, on the other hand, are based on chance. All participants have an equal opportunity to win a prize.

Trade (Industrial) Sales Promotion Methods

WHAT ABOUT TRADE SALES PROMOTION METHODS?

Producers use these methods to encourage resellers or dealers to carry their products and to promote them effectively. Several methods are used, such as buying allowances, buy-back allowances, counts and recounts, free merchandise, merchandise allowances, cooperative advertising, dealer listings, premium money or push money, sales contests, and dealer loans.

1. Premiums used in trade promotions are similar to those in consumer sales promotions; they are incentives to buy a certain amount of specific goods. There are two types of premiums used in trade sales promotion. One is provided for the reseller's personal use, such as cameras, small appliances, and luggage. The other type is an item which the reseller can resell.
2. Premium money or push money (PM) is extra money which is given to the dealer's salesperson for selling a particular product. This is done to encourage the sale of a particular type of merchandise. Many producers have found the use of PM's more effective than a corresponding or greater reduction in the price of the article.
3. An advertising allowance, sometimes called a promotional allowance, is a reduction in the wholesale price given to the reseller for purchasing a particular item. The purpose of the advertising allowance is to provide the dealer with some financial assistance in the advertising of the product being promoted. It is normally given only when a certain quantity is purchased because the manufacturer wants to be assured that the reseller has a sufficient quantity of the item on hand to meet the demand resulting from advertising.

ADVERTISING FUNCTION

WHAT'S INCLUDED IN THE ADVERTISING FUNCTION?

Advertising is a promotion strategy which is used to promote many things and communicate with prospective customers through various mass media. Businesses use advertising to promote goods, services, images, ideas, issues and people through a variety of media such as radio, television, newspapers, magazines, mail, and outdoor displays.

Depending on what is being promoted, advertising can be classified into one of two categories--institutional advertising and product advertising. Institutional advertising promotes organizational images and ideas. Product advertising promotes goods and services and is often used to directly stimulate demand for a product or service. Some advertisments contain both institutional and product advertising.

There are several different types of product advertising. If the entrepreneur is the first to introduce the product, the business uses pioneer advertising. Pioneer advertising informs persons about what a product is, what it does, how it is used, and where it can be purchased. Competitive advertising is used when the entrepreneur wants to build demand for the firm's specific product. It will point out the product's special uses, features, and advantages that benefit customers. Comparative advertising occurs when specific features of two or more identifiable product/service brands in the same product class are compared. Defensive advertising is an attempt to lessen the effects of a competitor's promotional program. Defensive advertising may not increase sales; but may prevent a loss in sales.

Reasons for Advertising

WHY DO BUSINESSES USE ADVERTISING?

There are many reasons for advertising. Before you decide on which media to use, you need to clearly identify why you want to advertise and what benefits you expect. You may use continuous advertising to:

1. Directly stimulate primary and selective demand. If your firm is the first to introduce a particular product, then stimulating demand through pioneer advertising is essential. Because a number of manufacturers produce food processing appliances, a manufacturer of such an appliance will need to build selective demand for the firm's product by using competitive advertising.
2. Offset competitors' advertising. This can be done through defensive advertising, comparative advertising and various sales promotion methods and techniques.
3. Make salespersons more effective. Personal selling is still the most widely used means of promoting products and services. Advertising often promises direct support to personal selling activities. Some advertising is created to specifically support personal selling activities by preselling buyers through informing them of the product uses, features, and benefits, and encouraging them to contact local dealers. Industrial products, insurance, consumer

durables such as automobiles, and major household appliances are often sold in this manner.

4. Increase the uses of a product. The absolute demand for any product is limited since people will only consume so much. If a firm can, through advertising, convince buyers to use its products in more ways, then it increases the sale of its products.
5. Remind and reinforce customers. Customers need to be reminded that established brands are still available. Advertising should assure current users they have made the right choice and tells them how to get the most satisfaction from the product.
6. Reduce sales fluctuations. The demand for many products varies from one month to another because of such factors as climate, holidays, seasons, and customers. Advertising can be used to stimulate sales during low periods. By leveling out sales, the business can operate more efficiently.

Advertising Media

ARE THERE STEPS TO FOLLOW IN SELECTING A MEDIUM?

It is important to select the right medium or media which suits the needs of your firm. Selection should include the following steps:

1. Examine and select a general kind of medium (radio, television, newspapers, etc.).
2. Examine and select a specific subclass within a medium (television - women's daytime shows).
3. Examine and select specific media vehicles (television -

women's daytime shows - exact program).

Types of Media

WHAT TYPES OF MEDIA ARE THERE?

There are many available media from which to advertise. Approximately 88% of the families in the United State read a newspaper daily. Different members of a family read different sections of the newspaper. Advertisements, some with illustrations, are spread throughout the newspaper in various sections which relate to individual interests--sports section, women's section, financial section. Newspapers are a particularly effective medium because of timing. Only a few hours are needed before publication to prepare copy for a newspaper advertisement.

Magazines reach a multitude of special interest readers. A magazine is rarely read in its entirety at one sitting, so an advertisement has the chance of being seen more than one time. Advertising copy must be planned and submitted well in advance--as much as two months, and even longer if the advertisement is in color.

Radio listening is no longer confined to the home. Never before have radios had the extensive audience they do today. Spot announcements last anywhere from ten to sixty seconds and can be inserted in the middle or between programs. The cost of radio advertising is relatively low. Radio advertisement spots can be repeated frequently and can be changed quickly.

Television is expensive. Advertising costs differ according to the expected number of viewers. A one-minute advertisement used during a recent Super Bowl game cost $250,000. Any firm that wants national visibility has found TV to be one of the best mediums. Generally big businesses advertise using national television. Small firms have found that local stations provide the only feasible form of TV advertising. Many types of programs are available. For example, late evening movies on local TV stations average 3-4 commercials every 7-8 minutes.

Outdoor advertising is becoming more popular since our society has become more mobile. Billboards, highway signs, and electrical signs are examples of outdoor advertising.

Transit advertising consists of signs mounted on busses, trains, cabs, and other public transportation vehicles.

Direct mail takes the form of handbills, circulars, coupons, letters, and catalogs. Some advantages include selection of customers, appeal to a specific group, and less competition with other forms. The copy can be elaborate, simple, color or black and white. Firms can prepare their own copy. This advertising medium is becoming more costly due to rising mail rates.

EXPLORATION ACTIVITIES

Do you feel knowledgeable enough in the marketing functions to put some of your ideas into practice? The following activities will help you experience some "real" marketing management situations. After completing the activities, do a self-evaluation to check your understanding of the material.

ASSESSMENT ONE

1. Interview two retailers and two producers, including farmers or manufacturers, regarding their firm's purchasing policies. Before the interview, formulate quesions to cover the following areas:
    a. Relationships that exist between the firm's inventory management policies and procedures and the firm's purchasing policies and procedures
    b. Procedures used in selecting vendors
    c. Business credit granted by suppliers.
2. Contact at least one of your local radio stations and one local newspaper and ask the following:
    a. What are the advertising rates?
    b. What special services, if any, are offered to advertisers?

c. How much responsibility must the advertiser assume in the preparation of the advertisement? For example, will the radio station or newspaper provide help in preparing the advertisement?

3. Identify the target markets for your proposed firm. Discuss in detail the procedures you would use to identify the market. Your paper should be no longer than three pages.

4. Develop an equitable credit policy for the firm you hope to own. Outline the procedures you will follow to implement the credit policies you establish.

ASSESSMENT TWO

The C's of Credit Puzzle. On the following page, find and circle terms that are associated with credit. They may be circled horizontally or vertically. Below are some clues.

- What this puzzle is all about
- The 4C's of credit (four words)
- The two kinds of credit (two words)
- The way we used to buy items
- What we pay on bills when payment is extended over a period of time
- One of the reasons consumers use credit
- Consumers use this instead of cash

(Check your answers on Page 72)

c	o	n	d	i	t	i	o	n	s	t	h	e	d	l	y	s	a	a	l	m
a	e	c	c	l	n	g	u	s	t	c	o	n	v	e	n	i	e	n	c	e
s	t	h	i	n	s	k	n	o	w	r	c	n	v	c	a	d	l	e	a	r
h	r	u	a	n	r	u	o	n	d	e	l	e	u	i	s	t	y	r	p	l
o	p	t	e	e	l	o	s	i	n	d	a	r	e	y	u	u	l	q	i	r
n	u	c	r	x	n	a	l	o	u	i	s	x	c	t	e	o	n	i	t	c
t	r	a	d	e	c	r	e	d	i	t	h	a	r	d	a	e	n	n	a	e
h	r	p	l	p	r	e	s	t	o	f	t	h	e	w	o	r	l	t	l	o
e	s	a	a	d	e	p	e	o	r	t	c	h	a	r	a	c	t	e	r	m
b	e	c	n	a	d	d	s	s	b	s	p	u	c	i	l	e	r	r	l	e
a	u	i	o	s	i	h	e	r	e	w	e	a	r	e	a	g	a	e	i	w
r	t	t	u	e	t	n	e	c	n	l	a	c	n	d	e	r	l	s	u	y
r	s	y	t	e	c	o	n	s	u	m	e	r	c	r	e	d	i	t	a	m
e	c	n	e	a	a	y	z	d	u	h	r	u	e	m	r	m	l	a	u	n
l	l	c	o	y	r	g	r	e	a	t	i	d	e	a	s	s	m	a	l	g
h	c	s	e	t	d	i	f	i	u	e	e	h	n	a	d	t	n	c	e	o
e	v	o	l	u	n	e	o	w	t	c	o	m	p	a	g	u	a	r	a	u
a	n	p	r	j	e	o	r	b	n	l	e	i	u	m	n	s	i	o	n	c
d	o	b	l	h	g	a	n	a	l	u	c	i	n	g	s	t	e	n	g	r

POSTASSESSMENT

1. Name and describe the steps involved in conducting marketing research.
2. Diagram two common channels of distribution: one for industrial goods and one for consumer goods. Describe in detail the differences between the channels, especially in terms of cost factors.
3. Describe at least three factors which are important in establishing prices for a firm's goods and services.
4. "Pricing is a very complex function." Discuss this statement in detail. Do you agree or disagree? Why?
5. Distinguish between sales promotion and advertising. Identify and briefly describe three sales promotion methods and three advertising methods.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

For answers to Assessment Two, turn this page upside down.

How well did you do?

```
c o n d i t i o n s t h e d l y s a a l m
a e c c l n g u s t c o n v e n i e n c e
s t h i n s k n o w r c n v c a d l e a r
h r u a n r u o n d e l e u i s t y r p l
o p t e e l o s i n d a r e y u u l q i r
n u c r x n a l o u i s x c t e o n i t c
t r a d e c r e d i t h a r d a e n n a e
h r p l p r e s t o f t h e w o r l t l o
e s a a d e p e o r t c h a r a c t e r m
b e c n a d d s s b s p u c i l e r r l e
a u i o s i h e r e w e a r e a g a e i w
r t t u e t n e c n l a c n d e r l s u y
r s y t e c o n s u m e r c r e d i t a m
e c n e a a y z d u h r u e m r m l a u n
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h c s e t d i f i u e e h n a d t n c e o
e v o l u n e o w t c o m p a g u a r a u
a n p r j e o r b n l e i u m n s i o n c
d o b l h g a n a l u c i n g s t e n g r
```

SELF-EVALUATION

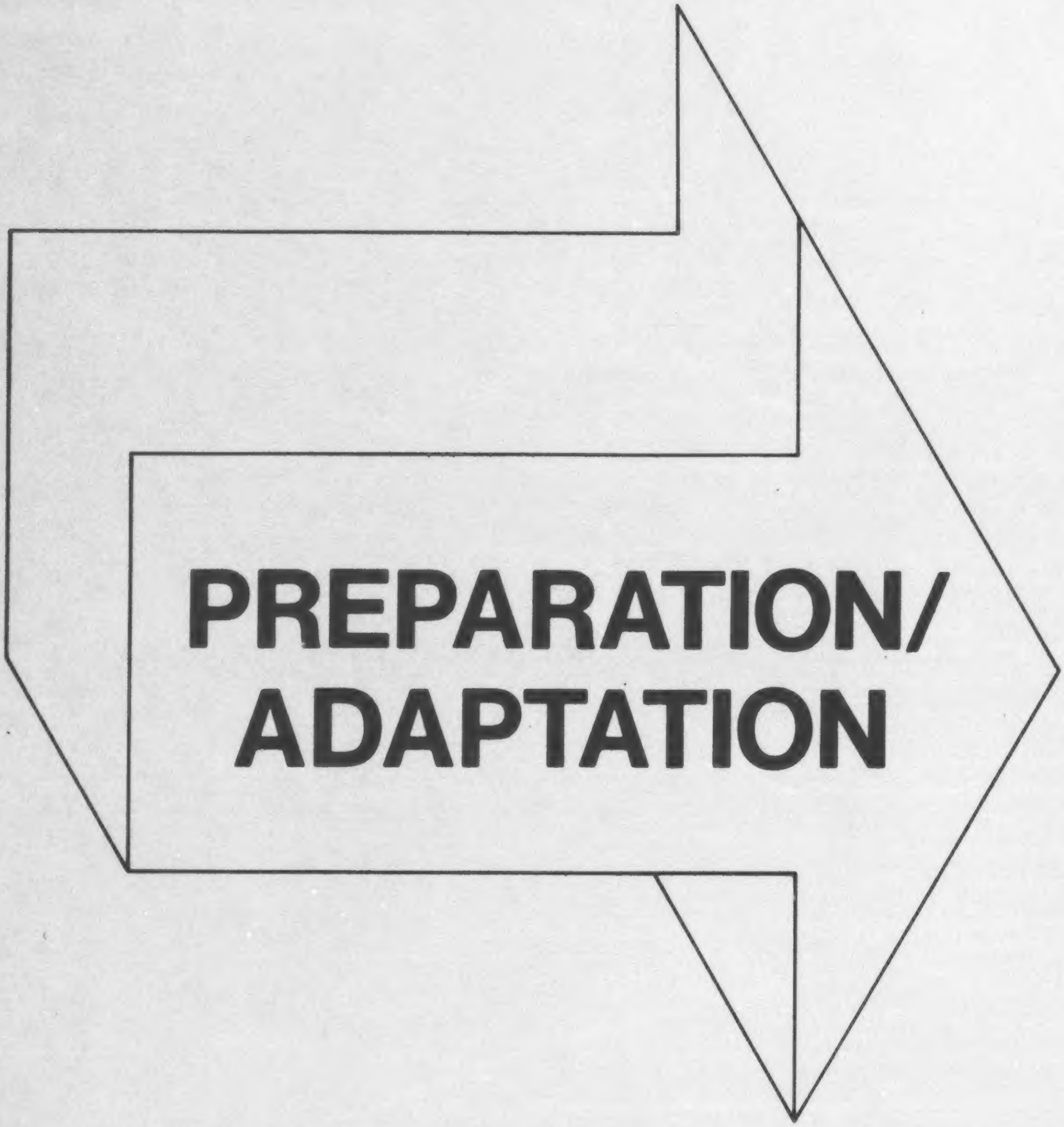
How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.



PREPARATION/ ADAPTATION

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/Adaptation Activities" section and measure what you've learned.

1. What are the two primary methods of collecting research data?
2. What are the inventory control systems?
3. What is the marketing concept and how did it begin?
4. What are "product life cycles?" How are they important?
5. In what way do retailers, manufacturers, service firms, and wholesalers set their prices differently?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Name and discuss at least two methods for determining customer wants.
2. Define product life cycles.
3. Describe different inventory control systems used by retailers, wholesalers, manufacturers, and service businesses.
4. Discuss pricing methods used by retailers, wholesalers, manufacturers, and service businesses.
5. List and discuss at least two primary methods for collecting research data.
6. Describe the factors which influence the selection of the channels of distribution.
7. Identify the variety of modes of transportation available for distribution of materials and products.
8. Describe the major elements of a written advertisement.

SUBSTANTIVE INFORMATION

THE MARKETING CONCEPT

WHAT IS THE MARKETING CONCEPT?

The marketing concept is by definition a company-wide consumer orientation with the objective of achieving long-term profit objectives. In short, the marketing concept asserts that customer satisfaction should be the cornerstone of effective management.

Providing satisfaction to customers is the primary goal of the marketing concept. This is done through a coordinated set of activities. First, a business must find out what will satisfy customers. With this information, the business can create satisfying products. Second, the business must get these products into the hands of customers. The business must then continue to change and modify existing products to keep pace with changes in customer needs and wants. The consumer orientation of the marketing concept stresses the importance of customers. Marketing activities begin and end with them.

Development of the Concept

HOW DID THE MARKETING CONCEPT DEVELOP?

Historically, wide acceptance of the marketing concept did not come about until after World War II. Until the war, the economy could be classified as a seller's market (one with a shortage of goods and services). There was little pressure on entrepreneurs to design an effective marketing program since the very shortage of products meant strong consumer demand. When the war ended, however, factories stopped manufacturing military equipment and turned to the production of desirable consumer goods again--an activity that had, for all practical purposes, ceased in early 1942. This renewed production was the beginning of the buyer's market (one with an abundance of goods and services) that characterizes the contemporary business environment. With a buyer's market, goods had to be sold, not just produced.

The actual definition of the marketing concept philosophy occurred when the General Electric Company published its Annual Report in 1952. It was in this report that GE announced its new strategy towards business management. According to this strategy, marketing was to be introduced at the beginning instead of the end of the production cycle. Manufacturers, designers, researchers,and engineers would therefore have to keep up-to-date with consumer needs, desires, and price limitations. This meant that marketing would influence all phases of the firm's production, including product planning, production scheduling, inventory control, sales distribution, and service guarantees.

MARKET RESEARCH FUNCTION

WHY IS MARKET RESEARCH IMPORTANT?

In opening a successful new business, you, the entrepreneur, must conduct market research activities. Answers to a variety of questions are needed: What are the needs and wants of the target market? Will your products or services fill a current need? If a need does not now exist, can it be stimulated through promotion? Are the products and services timely? What products or services sold by competitors will compete with your business? If your business going to be ahead of or behind its time?

Market research can give the entrepreneur accurate and current data upon which business decisions can be made. It can help entrepreneurs make decisions regarding distribution, selection or advertising techniques, and sales forecasting.

A wealth of information is available to the entrepreneur in conducting marketing research activities. Assistance can be obtained from market research companies, government agencies, trade associations, and business consultants. U.S. Department of Commerce and Bureau of Census materials may be helpful; Chambers of Commerce normally research the area they serve;

trade associations usually have information about current economic trends. Participation in trade shows, exhibits, and fairs allows the entrepreneur to meet colleagues and observe new developments in the field. Local advertising agencies might also prove to be useful sources of information.

Many small businesses are unable to conduct sophisticated market research studies. This can be partially alleviated by using the following general guidelines. Successful research studies:

1. Identify the problem
2. Make a preliminary study
3. Plan the research
4. Gather the information
5. Interpret the information
6. Settle on a conclusion.

Collecting Data

HOW CAN MARKET RESEARCH DATA BE GATHERED?

Collecting data for market research can be done in a number of ways. Analysis of the firm's past sales records is often a good place to begin collecting data. For a new business, three of the main methods used in collecting data are interviewing, sampling, and observing.

The interview method is one of the most widely used methods for collecting information. There are several distinct types of interviews which can be used. The first type is the personal interview. Face-to-face discussion provides the opportunity to explain one's opinions and views in detail. The telephone interview may be a simple, inexpensive method of collecting information. However, the caller must be careful not to offend the person called. The mail questionnaire is another form of interview. However, the percent of people responding to mail questionnaires is usually very small. If a "reward" is offered to complete the survey, this percentage increases slightly. The questionnaire must be attractive and easy to complete. A simple questionnaire may give the small business owner helpful insights into what the customers want.

Interviews and questionnaires can be used in sampling. Sampling determines how an entire population feels by questioning a small percent of the group. The survey must be large enough to present a truly representative sample. By surveying a representative cross-section of the population, an accurate projection can be made. Choosing whom to include in the survey is the critical task. Race, religion, occupation, sex, or income level might be considered for the sample. Because of the complexity of developing samples, the small firm may need to hire the services of a market research specialist.

Another research method is observation. For example, you can count pedestrians or automobiles passing a given site and gather information as to the age and sex of each driver and the type of vehicle driven. By observing and talking to customers, the business owner may accomplish approximately the same objective as more sophisticated research methods. Your employees may offer additional information through their observations and discussions with customers. However, this method is not usually as thorough as the interview method.

PRODUCT PLANNING FUNCTIONS

WHAT'S THE MARKETER'S DEFINITION OF PRODUCT?

Marketers broadly define "product" as anything from which the consumer derives satisfaction. Therefore, basic product design should be consumer oriented rather than engineering or production oriented.

Throughout American business today, there is continuous development of new products, improvement of existing products, and an accelerating rate of product change. Although product change is evident in all industries, the rate of change varies widely. For example, the home sewing machine was invented in 1830, but the American market is still far from saturated. In contrast, television approached market saturation just ten years after its commercial introduction. Although few industries have experienced change as rapidly as television, most go through similar processes of product change.

Is large scale product change necessary, or does it merely represent an attempt to differentiate new products from old ones and one manufacturer's products from the products of competitors?

Many product changes do result from manufacturer attempts to increase the rate of natural obsolescence so that new demands will appear in formerly saturated markets. However, there are many factors beyond the control of the manufacturer which make it necessary to update products. Market changes are a primary factor in making existing products and product lines inadequate. Market segmentation--dividing large markets into submarkets-has made it unlikely that a single product can satisfy all customers. Changes in technology have increased markets for old products and created entirely new ones. Lowered prices of competitors can result in development of a new or more efficient products.

Product Life Cycles

WHAT IS A PRODUCT LIFE CYCLE?

Most products have life cycles. After being introduced into the market, most products go through a normal curve of growth and decline in sales volume. The product cycle life consists of five states: introduction, growth, maturity, saturation, and decline. In the introduction period, the innovator is rewarded with substantial sales increases. In the growth period, the product normally begins to share the market with competitors who entered the market because of the rapid growth in the introduction period. Total market sales will normally peak out in the maturity and saturation stages. The final stage shows sales in a continual decline. In this final stage, the decision to discontinue marketing the product may be made.

The Cuisinart is an example of a product in the growth period.

> *Last Christmas, department store chains and gourmet cooking shops everywhere were selling empty boxes--worth $225 apiece--and doing a land-office business. The empty boxes were, of course, to be filled--as promised--with the first Cuisinart food processors the store got in stock. "We were just totally unable to keep up with demand," says Cuisinarts' President and principal proprietor Carl G. Sontheimer, 63. "Every machine we get now goes toward redeeming those empty boxes. So the first four months will be tight, but after that we will be all right."*
>
> *The empty box promotion is typical of the kind of runaway success Stamford, Conn.'s Cuisinarts, Inc. has had since Sontheimer first introduced his revolutionary new food processor at the Chicago Housewares Show in January 1973. "This is a generalist machine in an age of specialty machines," Sontheimer says. The Cuisinart shreds, grates, grinds, slices, kneads, mixes and chops just about anything you'd care to dump into it, replacing most of the other appliances you'd normally keep in the kitchen.*
>
> *No vast advertising and promotion campaign launched the Cuisinart; it was the old story of the better mousetrap. The processor first made its way mainly by word of mouth, and then won the imprimatur of gourmet gurus like James Beard, Craig Claiborne, Julia Child and Gourmet magazine. The Cuisinart looks, sounds and comes on as French, but the company, like its proprietor, is an American as chop suey or apple pie, and so is its success in building a major new market in competition with giants. A mild-mannered rather rumpled-looking man of gargantuan girth, Carl Sontheimer is no consumer-goods whizbang. He's a physicist trained at the Massachusetts Institute of Technology, an*

> *electronics engineer, an entrepreneur and corporation executive, an inventor and a self-styled cooking nut. And it was all these talents, experiences and proclivities that went into making Cuisinarts one of the most successful new businesses in America today* (Forbes, March 6, 1978, p. 65.) Reprinted with permission from Forbes Magazine from the March 6, 1978 issue.

PRICING FUNCTION

HOW DO PRICING POLICIES DEVELOP?

The pricing of goods and services in manufacturing, wholesale, retail, and service firms is similar in several basic ways. These businesses arrive at pricing decisions based on cost-plus --how much the product or service costs plus an additional sum for profit. Most pricing techniques are based on cost-plus. Specific methods for determining price based on cost-plus do vary. Most pricing techniques do not take customer demand level into account.

Pricing is perhaps the most complex marketing function. There is no one best formula to use to establish prices. A price strategy is only effective if the customer is willing to pay the price established. Perhaps in the near future, technological advancements will be such that pricing will be greatly simplified.

Pricing for Retailers

HOW DO RETAILERS ESTABLISH PRICES?

Retailers have some of their prices suggested by manufacturers and wholesalers. Generally wholesale, as well as retail prices, are based on the markup of gross margin necessary to handle each line of goods profitably. Suggested prices are sometimes marked on the product by may be discounted by the retailer. Even though some prices are recommended, retailers still need to determine prices for many or most of the items they sell.

The goal for the retailer is to balance high and low markup items to achieve the desired average gross margin or markup. This gross margin, usually expressed as a percent, will pay for expenses and provide for a profit. The average gross margin desired may be 35%. All goods sold will be marked up in price an average of 35% of their retail or cost price.

Some goods will be marked higher and some lower than 35%. Some products necessitate very little markup. Market competition is such that if the retailer were to price the item even slightly above competition, goods would not sell. Other items that are not as competitive may have a higher than average markup.

Pricing for Manufacturers

HOW DO MANUFACTURERS ESTABLISH PRICES?

In manufacturing, the cost of production--the actual cost of making or processing a product--is the base for pricing. This includes the direct labor involved, raw materials, and overhead. Overhead can be divided into manufacturing overhead, such as repairs, utilities, insurance, and depreciation; and nonmanufacturing expenses such as selling and administrative costs. All these expenses must be known and recorded to arrive at a cost per product, thus determining the price.

Entenmann Regional Baking Company, with estimated sales of $117 million, believes it is able to offset relatively high ingredient costs by high sales volume.

> *The "concept" in Entenmann's case is its demonstrated ability to offset relatively high ingredient costs (usually 45% to 55% of each sales dollar vs. 35% for some large bakeries) by very high volume. In short, mass production of high-quality goods. Entenmann's long tunnel ovens can turn out 6,000 raspberry twists in an hour, the same time it takes a small bakery to make 100 or so. The result: selling prices as much as one-third less than those of Entenmann's major competitor, the corner bakery. What's more, a new tunnel oven, which will increase volume by $15 million, can be added for as little as $1.2 million.*
>
> *The concept is enriched by Entenmann's 400 highly motivated salespersons, who not only drive the routes but decide what should go on the shelf in their own territory. Their commissions average $30,000 per man per year. The best salesmen, those with a gift for personal marketing, can make $50,000.* (Forbes, March 15, 1977, p. 50.) Reprinted by permission of Forbes Magazine from the March 15, 1977 issue.

Pricing for Service Firms

HOW DO SERVICE FIRMS ESTABLISH PRICE?

Pricing by service firms is usually based on an hourly fee. Many firms charge by the actual number of hours spent in conducting the service. Others charge a standard number of hours the job should have required regardless of the time spent. Automobile repair shops, for example, usually charge so much per hour. The hourly rate must be set competitively but high enough to pay the employer's share of Social Security, unemployment compensation, insurances, other operating expenses, and generate a profit. A bookkeeping system which accurately reflects all operating expenses and the cost of materials used by the business to perform the service is essential to pricing.

CREDIT FUNCTION

HOW IMPORTANT IS THE CREDIT FUNCTION?

Economically speaking, our free enterprise system depends on mass production, mass distribution, and mass credit. Credit is big business. Credit buying has become a way of life. Years ago it was "cash-on-the-barrel". Today's slogan is "buy now, pay later". In the United States, the consumer installment debt exceeds $200 billion.

There are two types of credit 1) consumer (retail) and 2) trade. Consumer credit is used by individuals or families who agree to pay later. Trade credit is granted to business users (industrial buyers).

Consumer Credit

WHY IS CONSUMER CREDIT POPULAR?

Consumer credit appeals to buyers for several reasons.

1. Convenience - Purchases bought over a month's time can be paid for all at one time. Customers do not need to carry cash and run the risk of losing money. Having a charge account also makes shopping by telephone convenient.
2. Use of high-priced items while paying for them - In today's economy, most consumers would not have automobiles and many large appliances if they had to wait to save the money first and then purchase the item.
3. Savings - Customers can buy merchandise on sale at reduced prices even though they may be short of cash.
4. Special treatment - Some customers believe they get better service if they are charge customers. Charge customers are normally always informed of special sales prior to the general public. In addition, many believe it is easier to return merchandise.
5. Keep savings in reserve - Customers may keep their savings and continue to earn interest while they use the retailer's money to buy the goods and services they want.

6. Income tax records - Credit records indicate items bought as well as the price. Business people use these records to justify tax deductions of business items purchased.

Consumer Credit Plan

ARE THERE DIFFERENT CONSUMER CREDIT PLANS?

Retail or consumer credit can be extended to customers in three ways (1) short-term credit, (2) long-term credit, and (3) revolving credit.

Short-term credit is simply credit on account. The customer can buy over a one-month period and the bill is due normally ten days after the closing date of the billing cycle.

Long-term credit can be extended on the customer's account and the merchandise can be paid for in installments. If a customer wants to buy on the installment plan, most retailers require the customer to enter into a formal contract. By signing the contract, the buyer agrees to pay a certain amount on a regular basis until total payment for the goods is made.

Revolving or planned credit is a combination of a short-term credit account and an installment contract. With this plan, the customer makes a regular monthly payment which depends upon the unpaid balance of the account. The store determines how much the regular monthly payment will be. An interest charge of 1% to 1.5% may be charged on the account's balance each month.

Credit Cards

WHO OFFERS CREDIT CARDS?

Credit cards are offered by some retailers who operate their own credit plans. Nationwide credit cards are also available. Stores that honor nationwide credit cards normally are required to pay a fee to the nationwide organization for the service. This organization assumes the responsibility of collecting the account and maintaining the bookkeeping. Some retailers honor only their own credit card; others will honor several, including nationwide and bank credit cards.

Credit card organizations, such as Master Charge, American Express, and Visa, issue cards accepted by a variety of establishments such as car rental agencies, restaurants, hotels, motels and specialty shops. The merchants bill the credit organization monthly. The credit organization, in turn, deducts a percentage of the bill to cover the costs of handling and collecting the money. Some credit card organizations charge their customers a fee for their services. The credit card holder is billed monthly.

Visa and Master Charge are owned by large banks. The credit card holder does not pay a yearly fee. If the bill is paid entirely within the billing cycle, no interest or finance charge is added. If not, the customer can pay monthly installments similar to a revolving charge account and pay interest each month on the outstanding balance. Merchants accepting bank credit cards pay a fee to the bank to cover the costs of handling and collecting the money.

Trade Credit

WHAT IS TRADE CREDIT?

Trade credit is given by wholesalers, manufacturers, and jobbers to businesses that buy from them. Trade credit refers to the credit sellers extend to buyers in the form of invoice dating. Terms of sale or invoice dating is the length of time for which sellers extend credit to buyers. The length of dating depends on three factors (1) the length of time it takes to sell the product, (2) the length of the selling season, and (3) competitive conditions.

There are three common types of credit datings: regular dating, extra dating, and advanced dating.

Regular dating is the credit period that appears on the invoice. For example, an invoice is dated July 12 with terms of 2/10/30. The buyer can take a 2% cash discount if the bill is paid in ten days or by July 22. If the buyer does not take the discount, the total bill is due twenty days later, or by August 11.

Extra dating allows extra days to pay and still get a discount. For example, on an invoice with terms of 2/10/60 extra the buyer gets a 2% discount if the invoice is paid within seventy days - ten days plus sixty days. Payment is due ninety days after the date of the invoice--thirty days understood plus sixty extra days.

Advanced dating encourages buyers to order early. A later date is effective--not the invoice date. In other words, goods invoiced in August may have a November 1st dating. The payment would be computed from November 1 instead of August 1. Advanced dating is advantageous for any small business that has cash flow problems. It allows the buyer to delay payment and have use of the cash for other purposes.

Trade credit is often the way some small businesses get started. Trade credit allows buyers extra time to pay for the goods and services they need to operate their businesses. However, if the buyer does not pay within the time period, interest might be charged.

PURCHASING FUNCTION

WHY IS EFFECTIVE PURCHASING IMPORTANT?

It is estimated that 50% of every manufacturer's dollar used in cost for production is for purchasing of materials and parts. Therefore, effective purchasing is important to all businesses. The objective of effective purchasing is to have the right goods, in the right quantities, at the right time, and in the right place. Accurate information about inventories is also required. Purchasing policies for the small business should mesh with the goals of the business and should serve the needs of its customers.

Purchasing policies often vary according to the type of business. For a manufacturing concern, goods must be purchased to maintain balanced inventories in relation to production needs. Future orders must be carefully planned to be sure proper materials are on hand when manufacturing begins. By estimating the amount of work to be done, the business can purchase the right amount of parts, materials, and supplies to meet the expected needs for a given period of time. Items that are often used in production should be noted and a routine ordering procedure should be organized. Materials difficult to obtain should be ordered with enough time to insure timely delivery. Knowing the suppliers and being able to predict the length of time it takes for delivery is helpful.

The importance of purchasing for service businesses depends, to a large degree, upon how much profit may or may not be gained through the sale of merchandise and parts. Some firms derive a large part of their revenues from the sale of merchandise. For example, a plumbing and heating contractor may sell and provide parts for very expensive equipment. For other service businesses, such as bookkeeping or consulting, the purchasing function is not as closely tied to profits.

Wholesalers and retailers purchase goods based on anticipated sales volume, customer needs, and inventory levels desired. In order to purchase the right amount, retailers and wholesalers must have current information on the sales volume of each inventory item. They need to know the fast and slow-selling items to determine reorder points.

Use of Suppliers

HOW CAN AN ENTREPRENEUR BEST UTILIZE A SUPPLIER?

Purchasing involves choosing suppliers (vendors) who can best meet the needs of the business. The small business that is free to choose its suppliers should give preference to those who:

1. Can provide goods of the required quality, type, or model
2. Have goods available at fair prices and terms and in the quantities needed
3. Are reliable--those who provide goods continuously
4. Provide good service, not only in making deliveries, but also in handling transactions and making adjustments
5. Provide managerial and marketing assistance when needed
6. Provide special assistance in developing promotional aids, advertisements, etc.

The key questions which you, the small firm owner, must ask yourself when selecting a vendor are: Am I buying through the established channels of distribution for this type of business? Is there another source which would give me the same dependability and service? Am I getting the best prices available for comparable quality and quantity? In what quantities should I be buying merchandise and how will the vendor meet my needs?

Developing good supplier relations takes time. Care must be taken so relations are not hurt or destroyed. The following guidelines should be followed:

1. Pay bills promptly.
2. Treat information obtained from the supplier or the representative as confidential. This information may include price quotation, amounts of formal bids, and data concerning newly developed materials.
3. Avoid "rush" orders.
4. Present complaints and damage claims promptly, with full supporting evidence.
5. Cancel orders only when absolutely necessary.
6. Negotiate but do not argue over prices.
7. Exchange suggestions for product improvement and for cost reduction activities with the supplier.

INVENTORY CONTROL FUNCTION

WHAT'S INVOLVED IN THE INVENTORY CONTROL FUNCTION?

Inventory is the raw materials, goods to be resold, parts, shop and office supplies, and machinery and equipment needed by the business to perform its functions. Wholesalers normally have more money tied up in inventory than manufacturers or retailers.

What is the ideal amount of inventory? For retailers, it is the inventory which does not lose profitable sales and can still justify the investment in each part of its total. For manufacturing firms, it is that inventory which maintains production schedules with a minimum investment.

The Small Business Administration (SBA) has developed a checklist of questions concerning merchandise and inventory control for retailers, manufacturers and service firms. As you read through the questionnaires in Assessment One, note the procedures that are important for each type of business, especially for the field you wish to enter.

Inventory Control Systems

ARE THERE DIFFERENT INVENTORY CONTROL SYSTEMS?

Two types of inventory control systems, perpetual and physical, are used by most businesses. Electronic inventory control systems are also important. Combinations of these inventory control systems are common.

Perpetual Inventory Control

WHAT IS A PERPETUAL INVENTORY?

With the perpetual inventory system, the business owner has a running tally on the current stock of an item. For each item, a record is kept as it is brought into the business, stocked, and sold. Records are maintained on perpetual inventory cards, pages, or tags. Sales tickets or punched cards are often used in retail operations. The information will name the item, the stock number, the reorder point, and the supplier. When additional inventory is received, the number is added to the balance. When items are issued for use or sold, the withdrawal is subtracted from the balance. The amount of inventory on hand for a particular item can be easily determined by looking at the balance on the record.

When perpetual inventory records were kept manually, it was a time-consuming and somewhat inaccurate process. The development of cash registers, mini-computers, and computer service tie-ins with local banks has made maintaining perpetual inventory systems much easier for small businesses.

Physical Inventory Control

WHAT IS A PHYSICAL INVENTORY?

The physical inventory is considered a "necessary evil" by most businesses. Taking physical inventory consists of counting and listing the goods in stock with their cost and resale price. It is usually taken once or twice a year and covers the previous accounting period. Even if a perpetual inventory system is maintained, these physical counts are required to check the accuracy of unit balances on the individual record cards. Mistakes or losses due to spoilage and theft, and whether or not a profit has been made can then be determined.

Electronic Inventory Management Systems

WHAT IS AN ELECTRONIC INVENTORY SYSTEM?

Basically, the electronic inventory control system consists of:

1. Using a standardized system of classification
2. Preparation, in-store, of input information for computer use

3. Central computer processing and report preparation
4. Analysis, in-store, of computer-prepared reports

Recent improvements in computerized systems such as electronic cash registers and mini-computers have made computer based data about a firm's operations available to many small retailers. Grocery store scanners, for example, are as helpful in inventory control as they are in check-out. At these "scanner" check-out lines, each item passes over an electric eye linked to a cash register and a scale. The "eye" reads the UPC (Universal Product Code) symbol.

> *Unbeknown to the shopper, the check-out computer also logs each outgoing item against inventory in the store or a centralized warehouse, warning the manager when he must reorder and thus greatly reducing the frequency of the "Sorry, we're sold out" dirge. Obviously, the consumer benefits from computerized marketing. So does the store. Since supermarkets operate on a profit margin of about 2% or less, the savings can be crucial.*
>
> *Though the purchase price for a sophisticated eight-lane check-out system can be more than $110,000, some 200 systems are already operating in supermarkets around the nation. Some chains are, well, waiting in line for them. In time, chips in check-out counters will be as much a supermarket staple as the crunchy kind that comes in bags and tins.* (Time February 20, 1978, p. 49) Reprinted by permission from TIME, The Weekly Newsmagazine; Copyright Time, Inc., 1978.
>
> *Scanning has the potential for transforming the management of the grocery business. At the most basic managerial level, the scanner promises a dramatic reduction in "shrink"-- the term for losses from error and outright theft. For instance, merchandise delivered direct to the store by a supplier instead of through the chain's warehouse can be monitored as never before simply by comparing the detailed record of sales in the in-house*

> *computer with the invoices from the suppliers. That is how Ralphs Grocer Co., which has automated seven of its stores on the West Coast, discovered that deliverymen for a snack supplier were charging twice for the merchandise they were delivering, ripping off close to $15,000 over several months. Ralphs President Patrick Collins assesses potential savings from shrink control alone at $33,000 a year for a store doing $160,000 a week in sales--equal to twenty weeks' net profit for a chain store lucky enough to be enjoying a margin of 1 percent.* (Fortune, March 27, 1978, p. 78)

The costs involved in using electronic data processing are justified in terms of efficiency, information gained, and savings made. Businesses that have adopted electronic inventory control have pointed to many advantages, such as timely reports, valuable style and vendor analysis, lower inventories because of better sales trend forecasting, better turnover of goods, and fewer clerical employees required for the reporting function. Current data regarding daily sales volume, inventory levels, sales ratio figures and even profit and loss statement reviews are available within hours. With the technological advancement projected in the next ten years, more and more small businesses will have accurate and current information available.

THE DISTRIBUTION FUNCTION

WHAT IS INVOLVED IN THE DISTRIBUTION FUNCTION?

Marketing of goods and services includes eight basic functions: buying, selling, transporting, storing, grading, risk-taking, financing, and marketing information. Historically, middlepersons have performed the transporting, storing, risk-taking, and financing functions. However, all of these functions must be performed by someone; none can be eliminated. The elimination of the middlepersons, therefore, does not eliminate their function.

Channels of distribution provide the linkage through which producers' products flow to the market. Cost of goods is directly related to the channel of distribution used. Therefore, how a firm's products will be distributed is one of the most important decisions an entrepreneur must make.

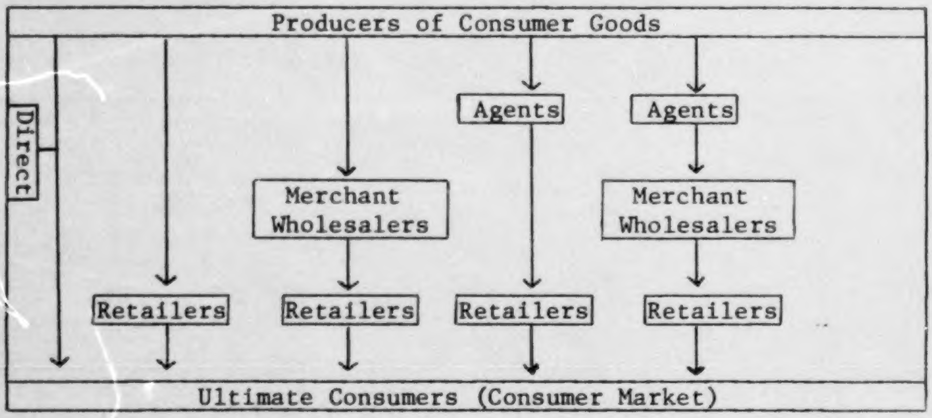
In determining which channel to use, the entrepreneur must consider the (1) nature of the product, (2) size and location of the market, (3) availability of suitable middlepersons, and (4) producer's ability and determination to oversee all of the marketing responsibilities.

Changes in market conditions and buyer attitudes necessitate periodic checks of distribution channels to be sure they are getting goods to prospective buyers in the most effective way. If competitors change their distribution plans, the entrepreneur may have to adjust her or his plan. The entrepreneur must regularly reevaluate policies on marketing channels for these reasons.

Channels of Distribution - Consumer Goods

ARE THERE DIFFERENT CHANNELS OF DISTRIBUTION FOR CONSUMER GOODS?

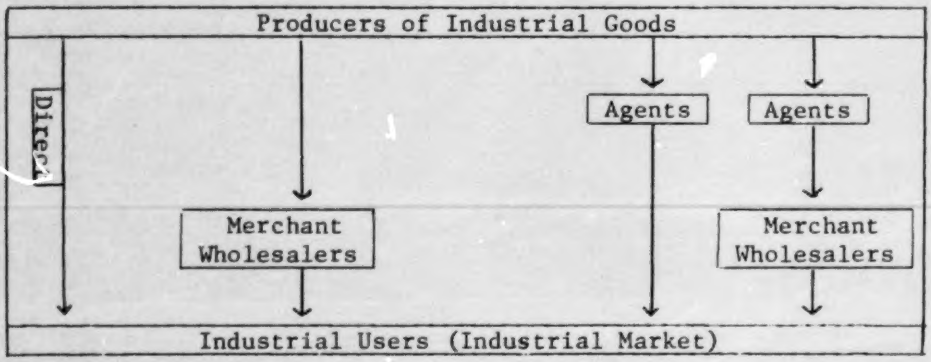
Producers of consumer goods have five main channel choices, one involving direct-to-consumer distribution and four which make use of indirect distribution through one or more layers of various types of wholesale and retail middlepersons.


Producers of Consumer Goods
Direct
Agents
Agents
Merchant Wholesalers
Merchant Wholesalers
Retailers
Retailers
Retailers
Retailers
Ultimate Consumers (Consumer Market)

Channels of Distribution - Industrial Goods

ARE THERE DIFFERENT CHANNELS OF DISTRIBUTION FOR INDUSTRIAL GOODS?

Producers of industrial goods have four main channel choices, one involving direct-to-industrial user distribution and three that make use of indirect distribution through one or more layers of various types of wholesale middlepersons.


Producers of Industrial Goods
Direct
Agents
Agents
Merchant Wholesalers
Merchant Wholesalers
Industrial Users (Industrial Market)

Modes of Transportation

WHAT ARE THE VARIOUS TYPES OF CARRIERS?

Selecting distribution channels requires some knowledge of the various modes of transportation available. Selecting the best type of transportation to get the job done for the least cost is becoming more and more important due to increases in transportation costs.

There are several types of motor carriers to choose from. A producer or manufacturer needs to select the type of carrier that best suits his or her needs. Sometimes two carriers are needed. If this occurs, the first motor carrier has the right to select the second carrier; however, the customer's wishes are usually honored.

Common carriers (trucks) can be hired by any shipper and are under the regulation of the Interstate Commerce Commission. They haul about one third of all motor freight. Common carriers have to charge certain rates and must operate over certain established routes.

Contract carriers can enter into special agreements with individual shippers and are not as restricted. They agree to move specified shipments for a specific period of time. They establish their own rates.

Private carriers are company-owned trucks that haul company goods only.

Air Freight is being used more and more today due to increases in motor freight charges and decreases in air freight charges. It is frequently used for quick delivery and smaller items. Unfortunately, size and weight restrictions often limit air freight shipments.

Railroads have provided the vital links among the various channels of distribution for many years. Railroads are extremely reliable. Piggyback cars, flatcars on which trailers can be loaded, have increased railroad efficiency. Containerized shipments are often placed on piggyback cars.

Containerization involves use of special or portable containers in which a producer can pack goods. This reduces packaging costs and losses due to theft and damage. The goods can travel great distances, change directions, and never have to be taken from containers. A container can be removed from the flatcar and put on board a ship, taken halfway around the world, lifted from the ship, deposited on another railroad flatcar, and further transported. The goods remain packed as the original producer placed them.

PROMOTION FUNCTION

HOW IMPORTANT IS ADVERTISING/ PROMOTION TO SMALL BUSINESSES?

The primary purpose of advertising and sales promotion is to presell goods and services to customers. Advertising is a paid nonpersonal message by an identified sponsor. Advertising converts purchasing power into actual sales. Billions of dollars are spent on advertising each year. Sales promotion is any special effort a business takes to improve its sales and to hold onto its customers. It focuses on customer interest. With so many products available today, sales promotion helps customers select a certain product.

The finest product or service is useless until it is in the customer's hands. Most people must be motivated to want something before they will buy it, and promotion is the mass motivater. Advertising and sales promotion are the strategies that keep sales alive and a business profitable. They are becoming more and more important. Whether a business should use them is no longer the question. Now entrepreneurs should be asking "How much and what kind do I need?" Yet there are many small business owners who haven't discovered advertising and sales promotion.

Advertising

WHAT ARE THE OBJECTIVES OF ADVERTISING?

The two major objectives of advertising are to draw in new customers and to keep the old ones. In order to achieve these objectives, good advertisements must do what good salespeople do--they must follow the AIDA formula. This means that:

1. The advertisement must get the Attention of the desired audience.
2. Once the attention is attained, Interest must be held.
3. In holding interest, the advertisement must create a Desire for whatever is being advertised.

4. Once attention, interest, and desire have been attained, the advertisement must induce the customer to Act--actually buying what is advertised.

However, advertising is not a cure-all. There are a number of things advertising cannot do.

1. It cannot make a business prosper if that business offers only a poor product or an inferior kind of service.
2. It cannot lead to sales if the prospects it brings in are ignored or poorly treated.
3. It cannot create traffic overnight, or increase sales with a single ad.
4. It will not build confidence in the business if it is untruthful or misleading.

Written Advertisements

ARE THERE ANY TECHNIQUES TO PREPARING WRITTEN ADVERTISEMENTS?

Small businesses commonly use written advertisements. Small businesses use the local daily and weekly newspapers, magazines, and direct mailing more often than TV and outdoor advertising. Preparing a written advertisement involves preparing four major elements: headline, illustration, copy, and logotype.

The headline must attract attention, arouse interest, and motivate the reader to read the copy. It must be directed right at the reader. The more effective headlines usually ask a question, state a major selling point, or make a suggestion or statement about the major benefit of the product.

The old adage "a picture is worth a thousand words" is true of an illustration that appeals to human interest. An attention getting illustration will sell goods faster. People are more impressed by what they see than by what they read. Sometimes the illustration is used to direct the reader's eye to a particular point.

Writing copy is a true art. Copy should be written in language that is readily understood. The reader must feel the advertisement is speaking directly to him or her. The copy should contain all pertinent facts regarding the product, such as the benefits, sizes, styles, price, and any other information that will help the customer make a decision to buy.

The logotype is the identifying mark of the business. It can be an emblem, a trademark, initials, or symbol. It should make the customer recognize which business is doing the advertising.

Using Advertising Agencies

WHAT ABOUT USING THE SERVICES OF AN ADVERTISING AGENCY?

The decision to use an advertising agency should be given careful consideration. The decision should be based on whether or not you feel they can do a more effective and efficient job than you could. If you decide to use an advertising agency, be sure to select an agency that 1) refrains from maintaining two accounts where products are in direct competition, 2) obtains permission from the advertiser before committing the firm to any expenditures, and 3) communicates the exact dollar amount of all cash discounts granted by media to the advertiser. If advertising dollars are to produce the maximum possible impact on sales and profits, then all the parts of the program must be skillfully implemented, regardless of who prepares the ads.

Most advertising agencies are paid on commission. These agencies receive the bulk of their compensation from advertising media rather than from advertisers. Advertising agencies pay for space and time used on behalf of advertisers at the "card rate" less a certain discount, usually 15%, and bill them at the card rate. Advertising agencies are similar to management consulting and market research firms, except in the way they receive compensation.

The Promotional Mix

WHAT IS THE PROMOTIONAL MIX?

Determining the proper "mix" of advertising, sales promotion, and personal selling is one of the fundamental tasks for successful marketing. If the entrepreneur decides to rely on personal selling, advertising should be used primarily as a means of making a salesperson's selling efforts more effective. For example, advertising may be used to make dealers more receptive to the sales presentation, or to tell part of the selling message, thus saving much of the salesperson's time. The opposite situation is true when management decides to rely mainly on advertising: here, advertising does the preselling, and order-taking becomes the salesperson's chief function.

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply these marketing principles to your business aspirations? Are you now familiar with the various marketing strategies? The following activities should help you check your knowledge about marketing activities.

ASSESSMENT ONE

INVENTORY CONTROL QUESTIONNAIRES

The Small Business Administration (SBA) has developed a checklist of questions concerning merchandise and inventory control for retailers, manufacturers, and service firms.

1. Scan all questionnaires, and answer the one that applies to the field you wish to enter.
2. Select the questionnaire appropriate for the kind of business you hope to open. Contact at least two entrepreneurs in your area and ask them to complete the questionnaire. Compare their answers. Were there differences? If so, why? Prepare a two page paper summarizing the results of your survey.

For Retailers

Yes	*No*	
___	___	*Have you organized your store into selling departments?*
___	___	*Do you keep sales, inventory, and purchase records, by types of merchandise within your department ?*
___	___	*Within each merchandise type, do you develop a model stock plan for key points in the season in order to maintain a balance between breadth and depth of the assortments?*
___	___	*For staple and reorder items, do you prepare a checklist (never-out list) which you frequently check against the actual assortment on hand?*
___	___	*Do you have a unit control system for non-staple lines that shows best sellers and slow sellers daily and weekly?*
___	___	*Do you make certain that best sellers are reordered promptly and in sufficient volume and that slow sellers are processed swiftly for clearance?*
___	___	*When you go to market or place orders at home for seasonal merchandise, do you use a written buying plan to guide your selection?*
___	___	*Do you use a reliable system for determining and controlling a slow-selling stock?*
___	___	*Do you keep separate, in records and in stock, those goods which do not belong to the store, such as a customer's own goods and goods on consignment?*
___	___	*Do you have adequate safeguards against theft, breakage, soiling, and fading?*

(Management Audit for Small Retailers, 1971, pp. 17-20)

For Manufacturers

Yes	*No*	
		Are perpetual inventory records maintained with respect to the following classes of inventories:
___	___	*1. raw materials and supplies?*
___	___	*2. work in process?*
___	___	*3. finished stock?*
___	___	*Are perpetual inventory records checked by physical inventories at least once each year?*
___	___	*Does a responsible employee approve adjustments made to perpetual records based upon physical inventories?*
___	___	*Are all purchases made on purchase orders?*
___	___	*Are vouchers prepared for all purchase and expense items?*
___	___	*Are vouchers for purchases and expenses examined by you or a responsible employee to ascertain completeness of attachments and various required approvals?*
		Do you or a responsible employee receive periodic reports as to:
___	___	*1. slow-moving items?*
___	___	*2. obsolete items?*
___	___	*3. overstocks?*
___	___	*Is merchandise on hand, which is not your property (customer's merchandise, consignments, and the like), physically segregated and under accounting control?*

(Management Audit for Manufacturers, 1977, pp. 18-19)

For Service Firms

Yes *No*

___ ___ *Do you periodically reconcile the physical inventory with accounting records?*

___ ___ *Do you have a high frequency of stockouts on certain essential items?*

___ ___ *If you maintain parts stocks or similar items necessary for your services, does your inventory turnover compare favorably with similar businesses as compiled by such firms as Dun and Bradstreet?*

___ ___ *Have your cost of supplies remained a relatively constant proportion of sales?*

If you maintain an inventory, do you know by what means your inventory is valued?
___ ___ *1. FIFO (First-in, First Out)*
___ ___ *2. LIFO (Last-in, Last Out)*
___ ___ *3. Specific identification*
___ ___ *4. Average cost*

___ ___ *Do you know what it costs to purchase, process, handle, and stock the product or products used in your services.*
(Management Audit for Small Service Firms, 1976, pp. 30-32)

ASSESSMENT TWO

1. Discuss in detail the implications that technological advancement such as electronic equipment are having on inventory control.

2. Contact two business owners located in your community who operate the type of business you hope to own. Ask them how they price the product/services they sell.
3. Create a complete three-month advertising plan for the business you plan to operate. Identify the media you will use, write the advertisements, and develop an advertising budget.

POSTASSESSMENT

1. Discuss two primary methods for collecting research data.
2. Discuss the various inventory control systems which can be used by small businesses.
3. Explain the marketing concept. What does it include? How did it begin?
4. Describe what is meant by "product life cycles." Of what importance is this information to the small business owner?
5. Do retailers, manufacturers, service firms and wholesalers set their prices differently? Explain in detail.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

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FILMS

All films are available for purchase or rental from Sales Branch, National Audiovisual Center--General Services Administration, Washington, D.C. 20406. Phone (301) 763-1854.

EXPOSURE LEVEL

"Marketing for Profit" (18 min. 10 sec., sd., color, 16 mm)

Dramatizes the importance and relationship of marketing to the total business plan and the firm's profit goal. Identifies five vital elements of marketing: product, place, price, people, and promotion. Coordinating and directing these elements is the marketing plan. Each of the elements of the plan are discussed and illustrated.

"The Advertising Question" (13 min. 50 sec., sd., color, 16 mm)

The values and techniques of advertising are developed in a discussion between the two main characters. Some advertising in business examples are shown to emphasize pertinent points.

"Opportunities Unlimited" (15 min.)

The main character tells the story of his success in exporting barbecue equipment. He also explains the various kinds of help available from the Small Business Administration and the U.S. Department of Commerce in getting into the export market.

"Help at Hand" (20 min.)

Through narration and dramatization of the experiences of three small manufacturers, this film explains the Small Business Administration's procurement assistance program.

EXPLORATION LEVEL

"A Step in the Right Direction" (12 min. 18 sec.)

Through discussions between two retail competitors and flashbacks of their problems and accomplishments in developing successful control procedures, the film dramatizes the importance of merchandise control in retail stores and illustrates some effective control systems and techniques.

"The Calendar Game" (13 1/2 min., sd., color, 16 mm)

Emphasizes the need for advertising, planning, and budgeting by small retail and service businesses. Discusses various promotion methods which reach, at specific times, willing customers and explains the methods of choosing media and directing advertising. The two main characters touch upon budgeting, timing, choice of media, and plans for specific promotions.

"The Seventh Chair" (12 min., sd., color, 16 mm)

The film opens in a conference room with small business owners representing various types of enterprises and a moderator. Each business person discusses his or her credit and collection problems.

"Buying and Selling in International Markets" (11 min.)

A film produced by Pan American World Airways to illustrate, through successful cases, how its World Wide Marketing Service helps business persons get into the export market.

"The Follow-Up" (13 min., sd., color, 16 mm)

Illustrates the value of following up on advertisements and promotions. Discussion between the two main characters, in addition to a follow-up of a radio commercial, soliciting customers' reactions to store layouts and point-of-sale ads, and getting business associates' opinions of ads, bring out many of the factors to consider in advertising/sales promotion follow-up.

"Variations on a Theme" (13 1/4 min., sd., color, 16 mm)

Emphasizes the important steps in planning a sales event. Conflict occurs due to an anniversary sale in a ready-to-wear shop. The proprietor points out many of the factors involved in promoting and implementing a successful sales event. Subsequent meetings with all store personnel resolve the conflict and illustrate the step-by-step preparations for the sale.

RESEARCH AND DEVELOPMENT SERIES NO. 194 C-4

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part III

Being An Entrepreneur

Unit D

Marketing Management

THE NATIONAL CENTER
FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD-COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. Basically, marketing is the performance of business activities that direct the flow of goods and services from producers to consumer or user. Marketing activities include (a) market research, (b) product planning, (c) pricing, (d) selling on credit, (e) purchasing, (f) stock keeping and inventory control, (g) selecting channels of distribution, and (h) advertising and sales promotion.

2. Responses should describe three of the activities listed in response to No. 1.

3. Responses should be discussions of the pervasiveness of marketing activities.

4. A business's image is how the firm is pictured by customers and competitors. It is the firm's identity. How vital a firm's image is to its success depends on the nature of the product, the firm's location, competition, and financial condition. However, responses should indicate awareness of the importance of the firm's image regardless of the type of business (even a small manufacturer has an effect on the community), and should be geared according to the individual's planned venture.

EXPLORATION

1. Steps for conducting market research include (a) identifying the problem, (b) planning research, (c) gathering facts, (d) interpreting facts, (e) choosing a solution.

2. Channels of distribution are (a) consumer goods: producer → agents → wholesaler → retailer → ultimate consumer, (b) industrial goods: producer → agents → industrial distributors (dealers) → industrial user. Industrial channels depend upon more uniform buying patterns for similar products than do consumer channels. Classification of industrial goods is also less complex.

3. The following factors should be considered when pricing a product or service: (a) cost of goods, (b) profit, (c) business environment, (d) competition, (e) the product or service, and (f) the credit function.

4. Responses should indicate that pricing involves weighing many factors. The ideal price is high enough to produce maximum profits but low enough to attract the highest number of buyers.

5. *Advertising* is a promotion strategy designed to inform potential buyers of a product or service through nonpersonal communication media. *Sales promotion* activities are incentives to buy products. They do not include personal selling and advertising. Sales promotion techniques include cents off coupons, demonstrations, trading stamps, point-of-purchase displays, samples, premiums, and contests and sweepstakes. Advertising methods include newspaper display ads, radio and television ads, direct mail, transit advertising, and outdoor advertising.

PREPARATION/ADAPTATION

1. Data gathering methods include the interview method, the observation method, and the sample survey method.

2. For retailers, inventory control is aimed at maintaining inventory levels that are economically justifiable and providing merchandise when customers want it. For manufacturers, it is aimed at maintaining production schedules with a minimum investment.

3. According to the marketing concept, a business should try to satisfy customer needs by performing a coordinated set of activities designed to achieve this goal. Products are changed and modified to keep in touch with customer wants and needs. The concept, formulated in the 1950s, influences all phases of production.

4. Most products have life cycles—they are introduced, experience growth periods, peak at market saturation, and decline. Entrepreneurs who understand this process know when to introduce new, modify current, and eliminate old products.

5. Retailers set prices based on the wholesaler's or manufacturer's suggestions. In manufacturing, the cost of production is the basis for pricing. Service firms usually base prices on an hourly fee.

		TEACHING/LEARNING OBJECTIVES	TEACHING/LEARNING DELIVERY SUGGESTIONS
		Upon completion of this level of instruction you should be able to:	**A variety of different teaching/learning methodologies have been used. To help you organize your work and plan the use of this level these suggestions are made:**
LEVELS OF LEARNING	Exposure	1. Define marketing and discuss its significance to small business. 2. Identify three marketing functions and discuss their importance to small business. 3. Describe these marketing functions from the viewpoint of small business: a. Market research b. Product planning c. Pricing d. Credit e. Purchasing f. Inventory control g. Distribution h. Sales promotion. 4. Define the term "marketing mix." 5. Discuss what is meant by product line diversification.	1. Collect a set of advertisements from local newspapers placed by different stores for the same kinds of products or services. 2. Arrange for a manufacturing or wholesaling sales person to meet with the group and discuss channels of distribution. 3. Invite a local person who has invented and marketed a product to discuss marketing strategies.
	Exploration	1. Discuss the factors to consider when purchasing business supplies and equipment. 2. Describe the costs associated with inventories. 3. Discuss the elements that affect pricing practices in small businesses. 4. Identify and disuss the steps used in conducting market research. 5. Describe various channels of distribution and how each channel may affect the cost of a product. 6. Describe the importance of extending credit to customers. 7. Identify and discuss briefly at least three advertising and sales promotion media.	1. Invite a staff member of an advertising agency to describe the various types of advertising media and the advantage and disadvantages of each. 2. Have the group visit the local newspaper to observe its operations. 3. Have a small business owner explain how he or she identifies customer's needs. 4. Have the group attend a meeting of the American Marketing Association.
	Preparation/Adaptation	1. Name and discuss at least two methods for determining customer wants. 2. Define product life cycles. 3. Describe different inventory control systems used by retailers, wholesalers, manufacturers, and service businesses. 4. Discuss pricing methods used by retailers, wholesalers, manufacturers, and service businesses. 5. List and discuss at least two primary methods for collecting research data. 6. Describe the factors that influence the selection of channels of distribution. 7. Identify the variety of modes of transportation available for distribution of materials and products. 8. Describe the major elements of a written advertisement.	1. Organize a panel of entrepreneurs, including a manufacturer, retailer, service firm owner and a wholesaler. Have them discuss their firms' marketing strategies. 2. Invite a member of a service organization or the Chamber of Commerce to explain the importance of the marketing function on the economy of the community.

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

Unit A: Nature of Small Business
Unit B: Are You an Entrepreneur?
Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

Unit A: Developing the Business Plan
Unit B: Where to Locate the Business
Unit C: Legal Issues and Small Business
Unit D: Government Regulations and Small Business
Unit E: Choosing the Type of Ownership
Unit F: How to Finance the Business
Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

Unit A: Managing the Business
Unit B: Financial Management
Unit C: Keeping the Business Records
Unit D: Marketing Management
Unit E: Successful Selling
Unit F: Managing Human Resources
Unit G: Community Relations
Unit H: Business Protection

RESOURCE GUIDE